The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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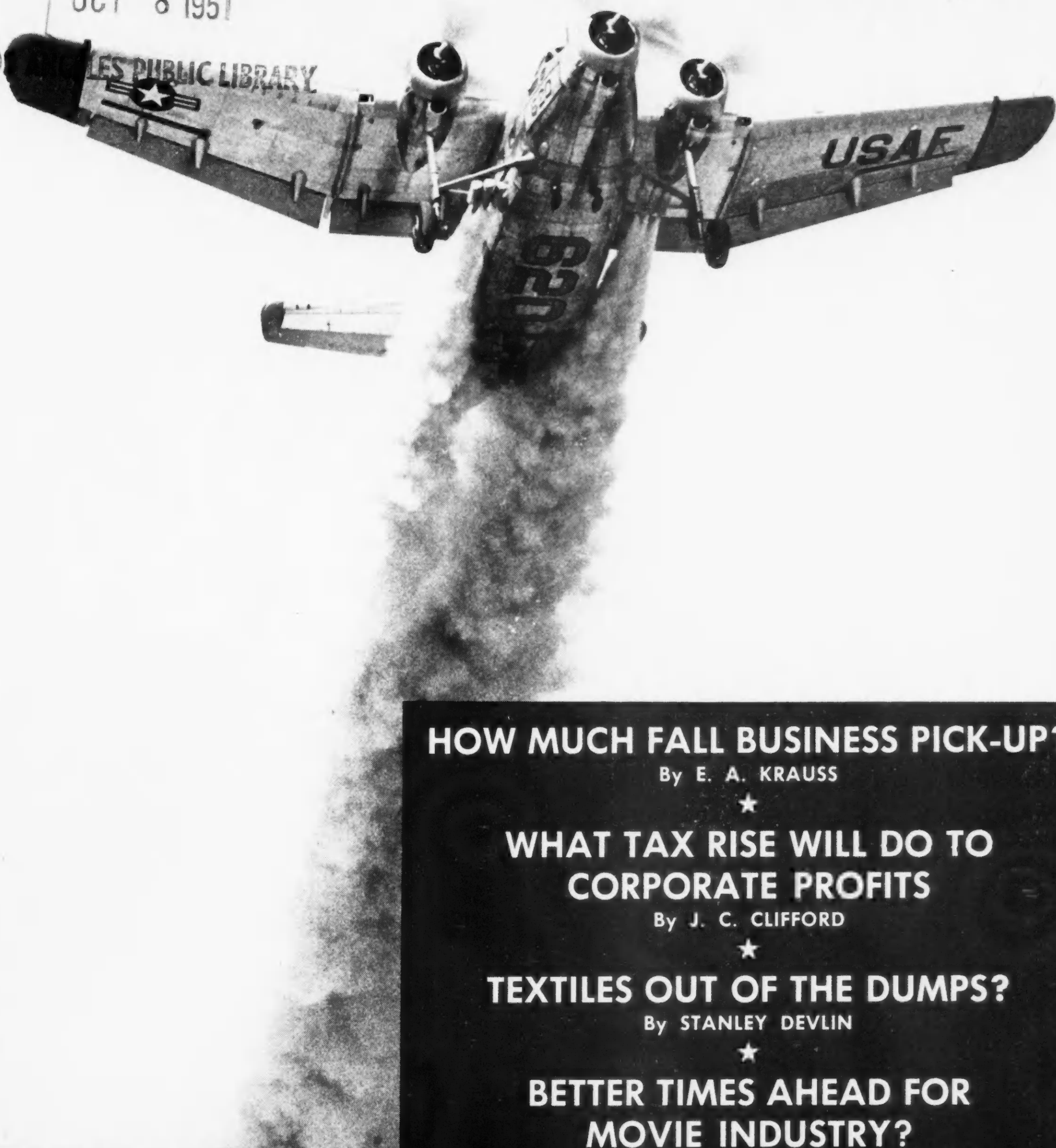

HOW MUCH FALL BUSINESS PICK-UP?
By E. A. KRAUSS

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WHAT TAX RISE WILL DO TO CORPORATE PROFITS
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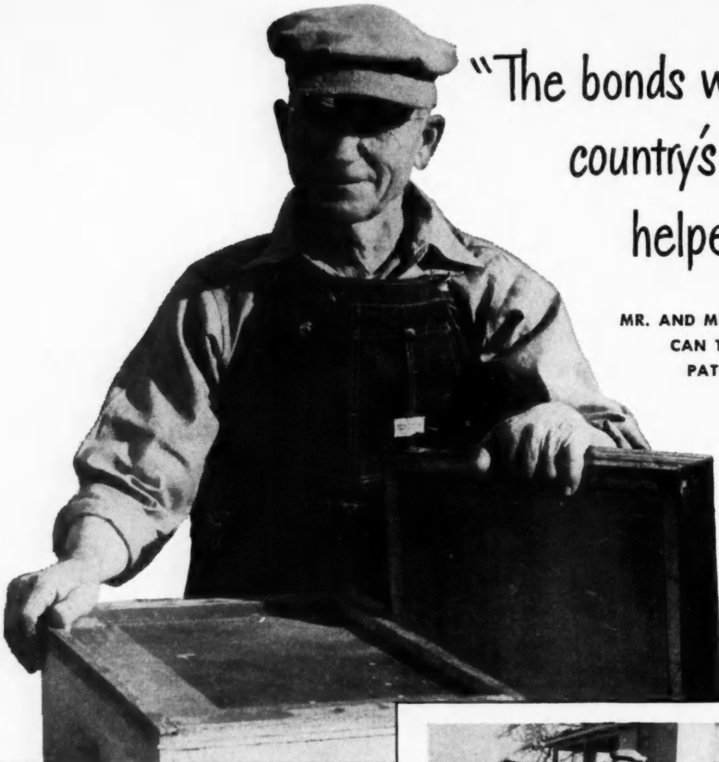
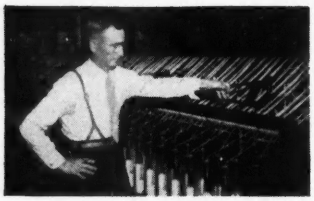
BETTER TIMES AHEAD FOR MOVIE INDUSTRY?



"The bonds we bought for our country's defense bought and helped equip our farm!"

MR. AND MRS. CHARLEY L. WHATLEY OF CUTHBERT, GA. CAN TELL YOU—IT'S PRACTICAL AS WELL AS PATRIOTIC TO BUY BONDS FOR DEFENSE

Mr. Whatley inspects a beehive on his 202-acre farm. "I wouldn't own a farm, clear, today," he says, "if it weren't for U. S. Savings Bonds. We bought a new truck, refrigerator and electric range, too. I've discovered that bonds are the best way of saving for a working man."



Mr. Whatley says, "My wife and I bought our first bonds in 1943, through the Payroll Savings Plan at the Martha Mills plant of the B. F. Goodrich Co. in Thomaston. Our pay averaged $40 a week apiece and we put about a quarter of that amount into U. S. Savings Bonds."

"We'd saved $6,925 by 1950. $4,000 bought us our 202-acre farm and a 6-room house. Then we bought a new truck, a refrigerator and electric range. Now Mrs. Whatley has time for tending her flowers while I can enjoy my hobby of bee-keeping. We owe it all to *planned* saving."

"We're still holding bonds, too. We don't believe that anyone should cash his bonds unless he has to, so we're holding about $1,800 worth. With that cash reserve, and our farm clear, we can grow old with comfort and peace of mind. Everybody should buy U. S. Savings Bonds!"

The Whatleys' story can be your story, too!

You can make your dream come true, too —just as the Whatleys did. It's easy! Just start *now* with these three simple steps:

1. Make one big decision—to put saving *first*, before you even draw your pay.

2. Decide to save a regular amount *systematically*, week after week or month after month. Even small sums saved on a systematic basis, become a large sum in an amazingly short time!

3. Start saving automatically by signing up *today* in the Payroll Savings Plan where you work or the Bond-A-Month Plan where you bank. You may save as little as $1.25 a week or as much as $375 a month. If you can set aside just $7.50 weekly, in 10 years you'll have bonds and interest worth $4,329.02 cash!

You'll be providing security not only for yourself and your family but for the free way of life that's so important to us all. And in far less time than you think, you'll have turned your dreams into reality, just as the Whatleys did.

U. S. SAVINGS BONDS ARE DEFENSE BONDS —BUY THEM REGULARLY!

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THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

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DIVIDENDS

COMMON DIVIDEND NO. 167

PREFERENCE STOCK
4.48% CONVERTIBLE SERIES
DIVIDEND NO. 18

PREFERENCE STOCK
4.56% CONVERTIBLE SERIES
DIVIDEND NO. 14

The Board of Directors has authorized the payment of the following quarterly dividends:

50 cents per share on the Common Stock;

28 cents per share on the Preference Stock, 4.48% Convertible Series;

28½ cents per share on the Preference Stock, 4.56% Convertible Series.

The above dividends are payable October 31, 1951, to stockholders of record October 5, 1951.

Checks will be mailed from the Company's office in Los Angeles October 31, 1951.

P.C. HALE, *Treasurer*

September 21, 1951

A M

DIVIDEND NOTICE

AMERICAN-MARIETTA COMPANY

The Board of Directors has declared the following quarterly dividends:

32nd Consecutive Common Dividend

A dividend of 50c per share on the Common Stock, payable November 1, 1951 to Stockholders of record October 19, 1951.

32nd Consecutive Preferred Dividend

A dividend of $1.25 per share on the Preferred Stock, payable November 1, 1951 to Stockholders of record October 19, 1951.

H. J. HEMINGWAY
President

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DIVIDEND NOTICE

Common Stock Dividend No. 143

The Board of Directors on September 12, 1951, declared a cash dividend for the third quarter of the year of 50 cents per share upon the Company's Common Capital Stock. This dividend will be paid by check on October 15, 1951, to common stockholders of record at the close of business on September 21, 1951. The Transfer Books will not be closed.

E. J. BECKETT, Treasurer

San Francisco, California

JUL 14 1952

New skyway spans nation with words and pictures

BELL SYSTEM *Radio-Relay* BUILT FOR LONG DISTANCE CALLS AND TELEVISION

There's something new on the national horizon! Bell Telephone construction crews have completed the last link in a coast-to-coast *Radio-Relay* system that is unique in all the world. Today, communications ride on radio microwaves, flashed through the air from tower to tower.

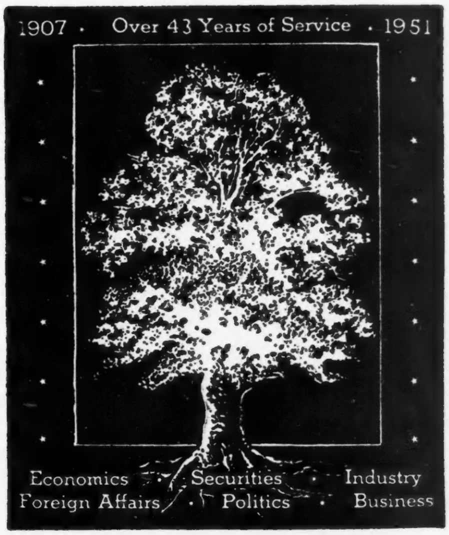
It was an historic event in 1915, when wires first carried the human voice across three thousand miles of mountains and prairie. By 1942, telephone messages were carried across the United States by another means — cable, both underground and overhead. And now comes *Radio-Relay* to supplement wire and cable!

The new system is already in use for Long Distance telephone service and coast-to-coast television. This new skyway helps make America's vast communications network even stronger and more flexible. And it could hardly happen at a better time. The demands of defense are heavy and urgent.

BELL TELEPHONE SYSTEM

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Editor-Publisher* E. A. Krauss, *Managing Editor*



The Trend of Events

CAPITAL INVESTMENT . . . If current plans are realized, American business will set a new record for capital investment this year, spending some $25 billion, a figure far exceeding the previous record of $19.2 billion set in 1948. In practical terms, this means that from the new facilities will flow in the future great amounts of additional goods and services which in turn will strengthen both the defense effort and our civilian economy. Significantly also, this huge capital investment will not only increase our overall productive capacity but will help further increase the workers' productivity, a major factor in determining how our standard of living will respond to current military needs.

American business leaders can be proud of what they are accomplishing in this field. Because of their enormous contribution to the welfare and safety of the country, they deserve the Government's fullest cooperation. It has often been said that without such cooperation, it will be difficult to hold the line against communism throughout the world. And cooperation of course must work both ways.

Above all, it must be realized that industry's feat is possible only if it is based on a framework of laws which makes it possible for business to accumulate capital through retained profits, free of punitive imposts, or to borrow capital from investors who are attracted by the expectation of gain. Confiscatory corporate tax laws, ceilings on profits set with an eye to political rather than economic considerations, and similar moves are the surest way of guaranteeing that such investment miracles can not be repeated in the future.

So far, we have taken them more or less for granted, with little thought that this investment is made while the standard of living remains high. This is in decided contrast to the much ballyhooed industrial development in Russia, the rapid growth of capital investment spurred on by Stalin—but wholly at the expense of living standards of the Russian people. There was a time, when communist propaganda won many converts by extolling this progress and comparing it with "capitalist stagnation". There should be fewer converts today since such communist propaganda has long been exploded. But it would be well to give the achievements of American free enterprise the credit it deserves, rather than just take them for granted.

Government cooperation with free enterprise is no less essential when it comes to combating communism abroad. We know that communism breeds on poverty, hence our aim to help lift living standards of foreign nations to prevent the spread of that social disease. But the manner in which it is done will largely determine its effectiveness. If we help other people to help themselves, we'll make real progress. If we make political grants which serve no other purpose than to strengthen the hands of political tyrants, we are likely to do more harm than good. And if we encourage foreign countries to destroy economic as well as political freedom through adoption of socialistic policies,

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

Business, Financial *and* Investment Counsellors: : 1907—*"Over Forty-three Years of Service"*—1951

we will equally fail in our purpose.

Here, too, close cooperation with private enterprise would be highly desirable. That means development of a practical policy in conjunction, rather than under exclusion, of private enterprise, and adequate protection of investments abroad. Merely shoveling out money is not enough; the procedure is all important and to succeed, it must be practical, not visionary. Private industry is doing a super-job at home. It can contribute much to the Government's efforts to help build sound economies abroad.

ON COOPERATION . . . When speaking of cooperation between Government and business, the latest Administration drive towards revision of the new Defense Production Act comes automatically to mind. It has been officially asserted that the new bill cripples the Government's fight against inflation and "could lead to enrichment and profiteering for the few, economic hardship and misery for many." Hence the Capehart amendment must be rescinded.

Such a demand would be more logical, and look more reasonable, if there were parallel action to stop the operation of escalator clauses in union wage contracts, and if something were done about high farm price supports. But no such thing is done, or even intended. It all comes back to the same old thing: Refusal, for political reasons, to insist on fair and equal distribution of the burdens of inflation caused by the defense mobilization. That is the basic issue.

The idea is that farmers and organized labor should continue to be protected—at the expense of the nation at the whole and more particularly at the expense of the consumer and of business. The latter's profits are to be squeezed, as they are bound to be if prices are to be frozen rigidly in the face of rising costs, particularly wage costs. But if that is to be, we fear that more than business profits will be squeezed. For by squeezing profits, the Government will also squeeze industry's ability to build new plants and install new tools, to maintain and raise the American living standard.

That is a vital issue, and not one with which to play politics. It requires sensible cooperation, not a "crack-down" approach.

FOOD FOR THOUGHT . . . While the economy is setting new production records, employment is at an all-time high and joblessness at an almost irreducible minimum, it is astonishing to learn that relief rolls are the biggest ever. The fact is that over 5½ million Americans are receiving public assistance in one form or another, at an annual cost of well over $2 billion. It's a strange paradox but one that shouldn't be glossed over, for its long term implications are rather disturbing. Above all, it shows that relief is no longer a depression phenomenon.

There are some understandable reasons why relief rolls have grown. While our population has increased by leaps and bounds, the increase of those over 65 years old has been above average. This trend will continue in the years to come. Another basic reason is inflation. Not only has it shrunk the value of relief benefits so that they had to be increased, but it also forced on relief a good many people who couldn't increase their incomes enough to meet living costs. Also, it's been more difficult for older workers to get jobs. High demand for labor has relatively little effect on such persons. And lastly, the thought is advanced—and not without proof, that there may be many on relief rolls who have no right to be there. Quite a few people, it is known, appear to be making a career out of receiving public assistance, something that already has led to bitter disputes in various states as to measures to deal with this problem.

For the latter of course there is no simple solution, particularly if politics interfere. But while official responsibility to alleviate genuine is recognized, there is hardly room for complacency towards corruption of relief administration. Even without that, the relief problem will grow to formidable dimensions as the old age groups continue to increase in numbers, as they will, in relation to the working population which must support our relief programs. And it may become infinitely more serious in times of adverse economic conditions. Social insurance, it was thought, would shrink relief rolls but it hasn't. We should see to it that they are not bloated unnecessarily or by fraud.

WEAKNESS IN GOVERNMENT BONDS . . . Government bonds have softened considerably of late and this weakness has spread as well into municipals and high-grade corporate issues. As a matter of fact, longer-term governments are approaching the lows made last Spring when the market was left free and the peg removed.

The Treasury's announcement of a large refunding operation in October and November when a very large issue of 1⅞% notes, running eleven months, will be exchanged for a similar issue of eleven and a half months, received less than an enthusiastic response, reflecting the growing tightness in the money market. This is also indicated by a rise in the bid for the new issue of discount bills at the high figure of 1.66%. Commercial loans have been expanding rather rapidly in recent weeks and the total is now about $19.9 billion against $19.1 billion a few months ago.

Whatever the reason for the tightness in the money market, and they are many, there is no doubt that the prospect for deficit financing is beginning to have an important effect. Estimates are that the Government's deficit for the fiscal year ending next June will be at least $3 billion and may possibly rise to $5 billion. While this is much less than projected in alarmist statements recently released by various authorities who think they see a much larger deficit looming, there is no reason to doubt that competition for funds by the Treasury, which is what it amounts to, will tend to keep money rates higher than they have been.

Assuming the Treasury does not reverse its policy and repeat its earlier inflationary bank credit policy, new Federal issues coming on the market in the next few months will tend to influence the rates at which new private issues can be sold. The mere hint that money rates might harden has very recently embarrassed the underwriters for the $45 million Tennessee Gas Transmission 3½% mortgage bonds who were unable to sell the bonds at the original offered price, equivalent to a 3.40% yield. Along with this incident, the entire high-grade bond structure softened with the downward trend likely to be in progress for some time.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS : : 1907—*"Over Forty-three Years of Service"*—1951

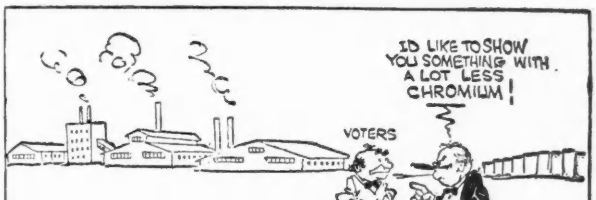
As I See It!

By ROBERT GUISE

WHAT A CHURCHILL VICTORY WOULD MEAN

After six years of socialistic nationalization in practice the British public by and large is disillusioned and perplexed, and seemingly ready for a change. A rough winter is coming up with officially predicted shortages of coal, steel, electricity, meat, for which the Laborites are being blamed. A new financial crisis, the worst since 1947, is in the making. The cost of living is rising. The Iranian mess, the Korean war, the rapid decline of Britain's world prestige, is worrying many. And socialization of industry is no longer popular, having proved a tremendous flop and an immense and costly disappointment, with all its tragic implications and inevitabilities. Even the workers, who were promised a nationalized paradise, have discovered that they merely got a socialized purgatory. Their trade unions are becoming impotent because the State, as employer, renders impossible independent and impartial arbitration. Hence, disappointment is rampant even among the supporters of the Labor Government.

"TEST RUN AT THE PROVING GROUND"



Dawling in the N. Y. Herald Tribune

In view of all this, the odds are that Clement Attlee will lose the October 25 elections and that Winston Churchill will then step back into his familiar role as British Prime Minister. Opinion polls consistently point towards a Churchill victory, but the votes of course haven't been counted yet. Such polls are not infallible and Attlee might pull off a miracle. But with Britain pretty much at the end of the road, a change would seem overdue.

What would a Churchill victory mean? Clearly, a conservative victory could hardly mean a sudden reversal since socialism has sunk its roots too deep, but it should mean a significant turning away from socialism. As Churchill's party manifesto indicates, it would mean, of course, a stoppage of all further nationalization, denationalization of the steel industry, decentralization of other nationalized industries and thereby more efficient operation. It certainly would mean an end to the socialist extravagances of the Labor Government and determined efforts to increase production so as to halt the decline in living standards. It would probably mean the removal of recently imposed dividend ceilings to encourage investment, a saner tax policy and de-emphasis of controls. In other words a move towards a freer economy to the extent possible under the circumstances. And circumstances are such that the Conservatives will find their task no bed of roses.

In view of Britain's political and economic importance, a change at the helm will also have widespread repercussions abroad. It should, above all, help stop the march of socialism elsewhere. We may see a somewhat tougher British policy, particularly towards Iran and Egypt, and a somewhat closer approach to our own position in the matter of China. There will be no retreat from rearmament but quite likely, we may also expect greater British initiative in efforts to straighten out the affairs of the world.

Above all, we can be sure that Churchill will look to this country to tide him over a good many troubles if he regains power, for his needs, as Attlee's, will be for dollars, for economic help and cooperation. In turn, a conservative regime should be inclined to bring some aspects of British economic policy more in line with ours, and the more liberal trend which has been noted in Western Europe. Politically and economically, the trend towards a United Europe might be strengthened.

But on the whole, it would be unrealistic to look for sensational changes. (*Please turn to page* 50)

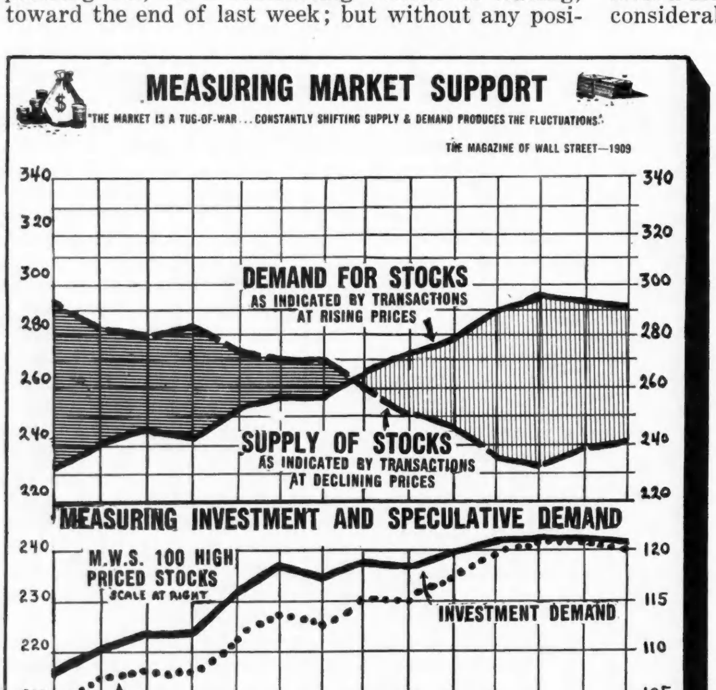
The Wisest Investment Policy Now

The market performance has been indecisive over the last fortnight, with more individual stocks soft than strong. Whether more than a minor technical correction can be avoided remains to be seen. At the present level, we see no basis for altering our conservative, selective policy. Substantial buying power should be held in reserve.

By A. T. MILLER

Selectivity continues to be a chief feature of the stock market. To the moderate extent that there has been a general trend of stock prices over the fortnight since our last previous analysis was written, it was downward in the industrial list and upward in rails during most of the period. There was a modest further rise in utilities to another new high for the year.

The recession in industrials is so far relatively small in points, and little more than nominal in percentage. It showed some tentative indications of petering out, on a contracting volume of trading, toward the end of last week; but without any positive renewal of general strength. Accordingly, it is an open question whether another minor correction, differing little up to this writing from previous brief pauses seen on the upswing since late June, is in process of completion.



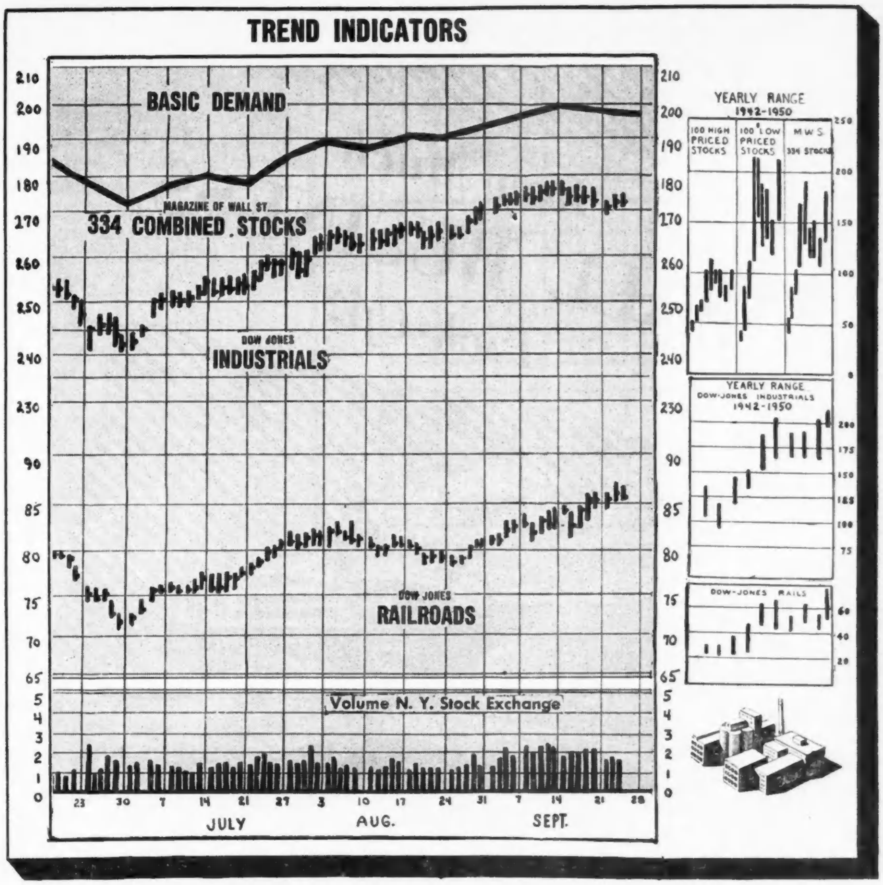
Action of Rails

To an unspectacular degree, the long backward rails recently "took the ball" for a time. By the middle of last week, the average had edged up to a level a fraction above its rally high of last May; but considerable offerings had to be absorbed, resulting in recession late in the week. At the best recent level the group remained about 4.5% under its major high of last February; and heavy offerings seem bound to be met if and as the latter level is approached. There is nothing particularly bullish or bearish in the general outlook for railroad earnings over the medium term—or until the next boost in labor costs comes along. Probably the moderately improved performance of these stocks was mainly a reflection merely of he generally more speculative tendencies which developed in the market over the last four or five weeks, to which we have previously referred.

Given either some further rise in the industrial section or no pronounced weakness, there is, of course, a speculative possibility that rails may in time test or go through their high of last February. According to traditional trading theory, an upside penetration would "confirm" the existence of a major and general upward trend, and presumably indicate some extension thereof. But "some extension" could be slight or large. The "confirmation theory" has not worked too well over the years, and has worked badly in recent years. So the contingency cited will be nothing for investors to tie to, if it should develop. Regardless of the mercurial technical indications provided by the price movement itself, at the present historically advanced level, and after advances from the 1949 low of 71% in industrials

and 109% in rails as of recent best levels, common sense should suggest that the further upside potential probably is fairly restricted in percentage at best—and the best cannot be counted on in the stock market.

Referring to the accompanying Market Support chart, a measure of market demand and supply, it will be seen that for some time the rise in the demand line has not been too vigorous, suggesting that the market advance during this period has been due relatively more to reduced willingness of holders to sell stocks than to any dynamic expansion of total demand. Tending to support that interpretation have been deficient trading volume and breadth (measured by the number of stock groups and issues participating in the June-September rise) as compared with the more dynamic phase of advance which preceded establishment of last February's highs.



The spread between the two lines on the chart now is fairly wide. That is not necessarily bullish, for it can only measure past and current relationship of supply to demand. No technical tool can foretell what it may be a week hence, much less several months hence—and investors have to think ahead. The balance could change rapidly and sharply at any time that investors and traders develop any significantly increased inclination to clinch profits. They could do so, whether soon or several weeks or months hence, on the reasoning simply that the market is in high ground and has been advancing for a long time; or that prospective tax-reduced earnings and static dividends provide too little to "go for"; or that the uncertainties implicit in a semi-war economy and in world affairs justify shifting to the cautious side to the extent of cashing some good profits. Since the market is too thin to permit concentrated unloading by large holders at satisfactory prices—even if they could foresee the exact top of the swing—it would not be surprising if many such investors stepped up their profit-taking on a spread-out basis in an effort to be "ahead of the crowd." However, it is easy to set the sights too high and to wind up with an incompleted profit-taking program in a declining market.

The main argument voiced for the bull side is that the market as a whole is still a substantial distance away from an extreme level, as judged by comparison of present price-earnings ratios and average dividend yields with those which prevailed at the tops of past major bull markets. We concede that it has some substance; but it boils down pretty much to an argument for buying stocks, at a general level far above any bargain-counter basis, on the assumption that the market will go to or approach past excessive and temporary levels, again measured, as it should be, by price-earnings ratios and dividend yields, rather than by historical price ranges. It need hardly be emphasized that the assumption is conjectural; and among professionals who are bullish "for the next several months," we do not note much confidence as to where the market will be six to nine months hence.

Some Basic Considerations

It is certainly dubious whether 1952 corporate earnings will exceed the tax-reduced 1951 total, although they might well do so by a modest margin on an annual rate basis in the 1952 first half. Total dividends next year will do well to approximate the 1951 total. On the most optimistic assumptions, therefore, a significant further rise in the market requires that higher and higher valuations be put on generally static earnings and dividends. That is possible, given sufficient investment and speculative confidence.

We have to wonder how long a confidence-mood can last and how far it can go in the present general environment. We have not a normal private-enterprise boom, but an economy which is shored up by a mammoth armament program, without which a cyclical deflation would no doubt be in progress. We have also a vast capital goods expansion. Without global war, which would be bearish, both of these abnormal stimulants will in due time lose force, perhaps by late 1952, pre- (*Please turn to page* 50)

How Much FALL BUSINESS Pick-Up?

By E. A. KRAUSS

A moderate reduction in the rate of industrial production and in trade volume has been the predominant business characteristic during the summer months. While the decline from the year's peak was hardly alarming, it was nevertheless significant in that it occurred against a backdrop of rising defense expenditures. Moreover it affected many industries. Evidently the elements which tend to lower business activity have become more equal in force to the stimulating factors than was generally anticipated. As it turned out, the defense program has not beeen superimposed on the business boom but has partly displaced booming civilian production on industrial schedules.

But the mid-summer "recession" has already shown signs of reversing itself and thus must be viewed as a "pause on the way up" rather than heralding a long downturn. While a wait-and-see attitude still dominates business plans, a fall pick-up, if only of seasonal proportions, is confidently anticipated. The trend of business in the months ahead will be upward though the pace may be slower than expected. Above all, a hectic boom is not in sight, nor a reappearance of the strong upward pressures which characterized previous post-Korean phases.

While a pick-up is taken for granted, the big question is: How much? There are numerous factors and varied indications that the general level of business activity should again be on the rise. One of the most potent is that more people are working than ever before, and that they are making more money than ever before. That means, employment is high and so are personal incomes.

Another is that defense spending in the fourth quarter will be at a new high since it now is rising steadily. Other straws in the wind: Prices of many commodities have ceased to decline, and some have risen moderately. There have been scattered signs of improved retail sales. New orders placed by buyers in wholesale markets and among manufacturers are somewhat larger although they do not as yet make up all the decline which has previously taken place.

Admittedly, all this is far from conclusive. Inventories are still heavy, hampering buying decisions and retarding forward commitments. Retail trade gains are very modest, and in fact disappointing. There is no indication of any change from the slump conditions in such industries as textiles and leather goods. Consumer durable goods industries face new production cutbacks which may intensify the employment problem in certain areas where curtailed work-weeks are already the rule.

Importantly also, the exact stimulation to be expected from defense spending is still to be seen. And while it is true enough that the size and shape of the economy depend importantly on how much money people have to spend, their *willingness* to spend is no less important. Recent experience has made this amply clear.

Two Vital Questions

These, then, are the most important "ifs": Will the people loosen up on their purse strings sufficiently to assure more than a normal seasonal fall-pick-up? And will military expenditures hold approximately to schedule?

Conceivably, consumers can go on making more money and still not spend it. They have done that very thing since the second quarter of this year with well-known and often-deplored results. People saved rather than spent, hence the summer recession. They may go on doing that very thing, and

if they do, the fall pick-up may even have trouble coming up to seasonal expectations. The future trend of retail sales therefore will be of great importance.

There are indications that the effects of overbuying last summer, and again in January-February this year, are not yet fully overcome. The instalment debt load remains huge, and existing credit restrictions tend to inhibit prolific buying of 'big ticket" items. Residential building is on the decline, and fewer new houses will mean less demand for the manifold things that go into them.

Outlook For Consumer Spending Doubtful

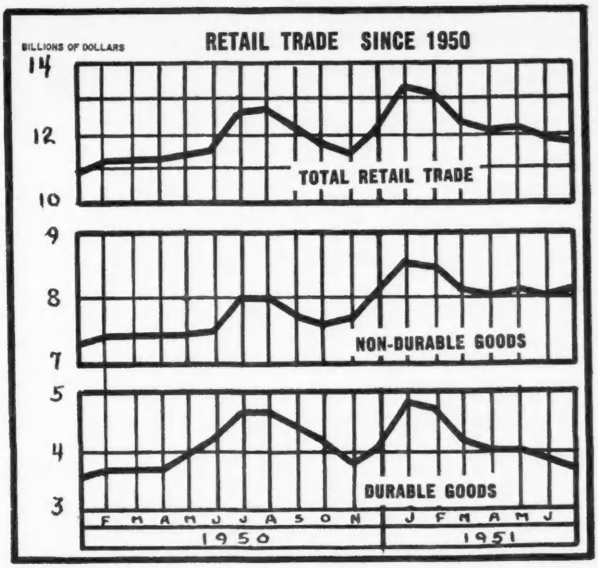
These factors are bound to exert their influence in the fourth quarter just as they did in preceding months. At best the outlook for consumer spending remains somewhat doubtful with the preponderance of advance indications on the conservative side. Things will pick up, without question, but hardly sensationally so. And it could be on the disappointing side, particularly because taxes are about to take another bite from incomes and higher excises will raise the price of many things.

What about defense spending? Can it be relied upon to carry the ball and inject sufficient stimulus into the economy to assure a brisk snap-back? Right now, it seems, actual arms spending lags even more than it has. While dollar spending should increase, it is not on schedule and will remain below schedule for quite some time. Yet it will be an important factor.

The present spending rate is about $3 billion monthly and may rise to $4 billion by the turn of the year. To evaluate its significance, let's compare it with retail trade which currently amounts to almost $12 billion monthly. A $1 billion rise in the monthly rate of arms spending would be equivalent to an almost 10% increase in the rate of consumer spending, and that would be a rise of no mean proportions.

The two types of spending in the last few months have beeen moving in opposite directions – consumer spending down, arms spending up – and not only offset each other but had the net effect of reducing total demand. Since during the fourth quarter, the trend of both will be upward, demand is bound to rise even if the actual increase in arms spending should be less than expected. It is a definite argument in favor of a business pick-up, though the scope of improvement can hardly be predicted with assurance at this stage.

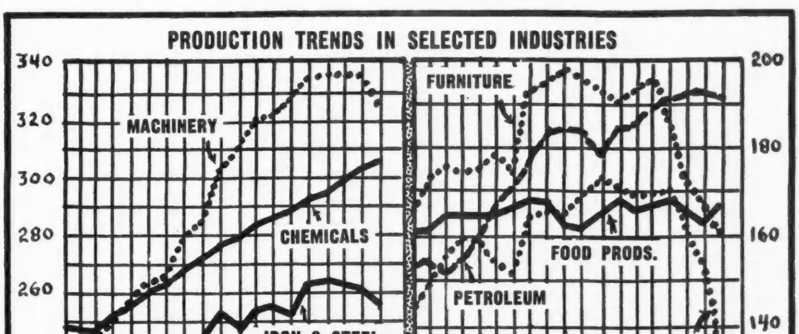
What kept the economy operating at a high level this summer in the face of deterioration in various areas, was business spending for new plant and equipment. While consumers cut their spending, business continued with its enormous program of plant expansion and such outlays are now being made at a rate of some $2 billion monthly. They probably cannot go much higher, may indeed have to be cut back because



of shortages of such vital things as structural steel to build plants and machinery to equip them. To the extent they are reduced, it will weaken this particular prop, offsetting upward tendencies elsewhere. But even then it will remain a big force pushing up the volume of business.

Stimulating Effects of Expansion Outlays

Expansion outlays have a stimulating effect in many directions, sometimes rotating in character. Initially they mean demand for large amounts of materials such as steel as well as many others also essential for military production. But when plants are completed, demand for construction materials will be reduced while that for machinery and equipment, as well as for working inventories rises. Expansion is rapidly approaching the latter stage which brings us nearer to the time when the supply of finished products put on the market will be greatly increased.



It is bound to have a bearing on trends over the next few months.

Of the factors enumerated, the trend of consumer buying will likely be a decisive one, and also a most difficult one to anticipate. There are some flickerings of reviving consumer demand but that's about all. There was a little pick-up in sales of autos and appliances but nothing like a strong trend. Potential shortages in hard goods are discounted and there will be a good supply of soft goods, hence a buying scramble is unlikely.

Hesitation in Forward Commitments

Stores are beginning to place orders with their suppliers somewhat more normally but caution remains the general rule. Normally anticipation of a brisk fall pick-up would find August inventories strongly on the rise, with lengthening forward commitments. But neither of these are in evidence. The effort continues to *reduce* inventories, and forward commitments are subnormal and undertaken only with hesitation. This means that business is taking nothing for granted.

In the face of this, the fact that unfilled orders have risen to the highest point ever known loses some of its luster. Much of the order backlog represents Government orders to be filled over a considerable period of time. While it provides assurance of a high level of industrial production in the future, its near term significance should not be overrated. It is one reason why the widely held idea that defense spending will automatically underwrite a brisk business snap-back in coming months must be taken with necessary reservations.

Happenings on the price front seem to support this view. Prices are considerably down from post-Korean highs and are staying down. Many staple commodities are weakening, not strengthening, and the wholesale price level has not changed much for months. The price trend in general shows no sign of an early upturn. Temporarily at least, price inflation has spent itself and it will take another upsurge in demand to revive it. At the moment, an upsurge of sufficient proportions is not generating.

Industrial Production

Industrial production, in terms of the Federal Reserve Board index, in July dropped to 213% of the 1935-39 average and that will probably stand as the low point for many months to come. It snapped back to 218% in August and further recovery is indicated for coming months though it may reapproach but slowly the previous peak of 223% reached in April/May. The July-August recovery has been distinctly subnormal, the five-point advance comparing with a nine-point seasonal improvement in 1949 and with a thirteen-point snap-back in 1950.

Morover, while the August index stands four points under June, last year it was ten points over that month and in 1949 one point above. All of which strengthens the viewpoint that the industrial upturn will be slow for the next few months though it is bound to gather speed as defense spending expands further in 1952. If the unfavorable gap betweeen new orders and production continues, the fall pick-up is hardly likely to exceed seasonal proportions.

Existing trends in various industries give an overall idea of what to expect. A further reduction in automobile production is indicated for the fourth quarter as the 1,100,000 unit goal is not likely to be achieved. Residential building will drop off sharply not only because of credit restrictions but due to a rapidly increasing pinch in available materials. Appliance production is being further curtailed in the fourth quarter. Lumber faces slackening demand and lower production.

There is an easier undertone in the paper industry where there has been some accumulation of inventories. Textiles are still in the doldrums and while some pick-up is likely in the fourth quarter, it will not be very impressive according to present indications. Apparel sales continue slow but face seasonal stimulation. Shoe inventories have been worked down to some extent and while fourth quarter production may rise somewhat, it may not be enough to get the industry out of its slump. Furniture, house furnishings and house wares similarly will probably have not more than a moderate seasonal improvement in demand.

On the other hand, steel and non-ferrous metals will continue at capacity levels. Machinery and machine tool industries are booming. Oil consumption and electric power production should remain high, and railroad traffic should pick-up as defense shipments will help boost volume this fall. Industrial demand and increasing exports will keeep bituminous coal production at fairly high levels and output in the second half should approximate the 266 million tons mined during the first six months. Inventories, previously heavy, were sharply reduced by the miners' holiday in July.

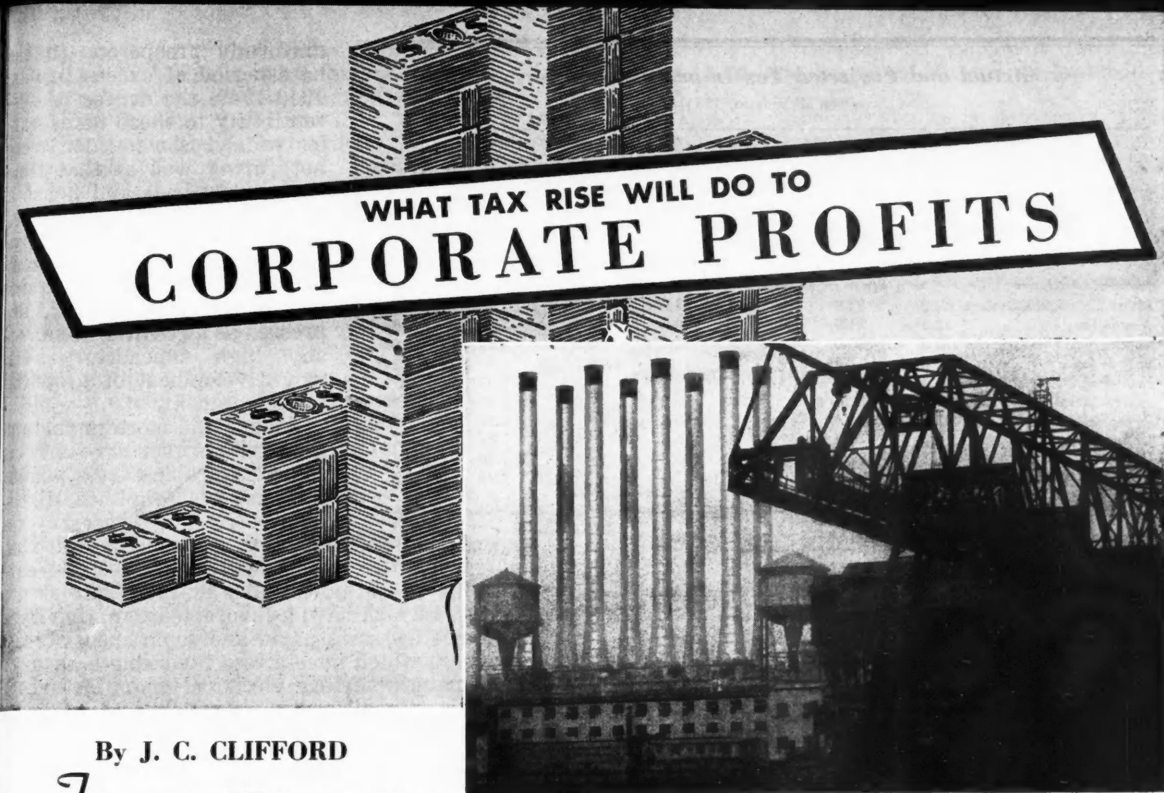
Cross Currents in the Economy

This brief summary of prospective conditions in major fields highlights the numerous cross currents existing in today's economy. Conditions are somewhat paradoxical with boom in capital goods industries and deflation in consumer goods. During the summer recession, the latter tipped the scale, hence it would seem logical to reason that it is here, where improvement must be expected to bring about an appreciable fall pick-up. By way of comparison, plant expansion should remain a fairly constant factor, and actual defense spending may not increase as rapidly as anticipated.

It is interesting, moreover, to examine the essential nature of the recent business slackening. Of the great divisions of demand – personal, business and governmental –, only personal demand declined and the recession in buying was confined for the most part to the purchase of consumer durable goods. Demand for soft goods fell off only slightly, while the demand for services increased. *A pick-up in hard goods buying would therefore seem to be a requisite for a good fall season.*

But so far, the prospects for such a pick-up appear not too promising though things can change as the weeks go by. One reason is that the consumer public is well stocked with hard goods. Another that credit restrictions militate against vigorous demand recovery. Barring new scare buying, then, a sharp recovery in consumer hard goods demand is not likely during the balance of the year.

This would seem to place the burden, increasingly, on defense production if stimulating forces are to regain the upperhand (*Please turn to page* 50)



WHAT TAX RISE WILL DO TO CORPORATE PROFITS

By J. C. CLIFFORD

The new tax bill is not going to make pleasant reading for stockholders. As we go to press, final details have not yet been completed but in view of the hostility of Congress, as a whole, to raising taxes beyond the $5.5 billion agreed upon, it is more than likely that important changes will not take place during the final days of debate.

The principal feature of the new corporation tax is the raise in combined income and surtax rates from 47% to 52%. Assuming the excess profits tax remains as in the former law, the main change will consist of making the new taxes retroatcive, to April 1 in the Senate version and to January 1 in the House version. Of great importance is the fact that the ceiling rate is raised from 62% to either 69% or 70%, depending on whether the House or Senate version is accepted.

About $2 billion is now added to corporation taxes, bringing the total up to about $16.3 billion, an amount not exceeded even during World War II, when taxes reached unprecedented figures. To this must be added $1,275 million in excise taxes which will also have an effect on certain business lines. The general corporate tax hike is equivalent to about 14%, a formidable figure if one considers that this represents the culmination in a series of tax boosts in recent years. With the new taxes in effect, individual companies will find themselves paying from 10% to 15%, and in some cases more, above present disbursements.

Before the war, when taxes were low, few investors bothered to learn much about this phase of their corporation's affairs. Today, however, taxes have become a paramount consideration since they have a direct effect of substantial proportions on profits. Actually, taxes have now reached a point where dividend policies may become involved, especially in the case of companies whose earnings do not provide a sufficiently wide margin of coverage. We have already seen the extent to which high taxes affected earnings during the first half of the year, especially in the second quarter. It does not take much, therefore, to visualize the great impact the new taxes are going to have on third and fourth quarter profits. Also, the retroactive raise will affect earnings already reported for the second quarter, if not the entire first half of the year, so that net for that period will have to be revised downward. This affects most companies as few have provided for the possibility of a retroactive tax.

As a rather extreme example of how the retroactive tax would affect corporations may be cited U. S. Steel which, if the House version of the new tax were passed, would have to pay about $23 million in additional taxes for the first half. On that basis, earnings for that period would have been about $2.70 per share instead of $3.61 a share actually reported. Similarly, Goodyear would find its net income shaved by 97 cents a share, or from $9.32 to $8.36, and American Smelting from $7.07 a share to $6.47. These are merely several examples of how the payment of back taxes under the higher rates of the new law will affect company profits. Even if the retroactive rates are made effective only after March 31, the profits will be reduced though naturally proportionately less.

Restatement of First Half Profits

It is obvious that a good deal of refiguring of profits for the first half of the year must be done. Since the earnings for that period have already been reported, it is most likely that the additional taxes that must be paid will be charged against either the third or fourth quarter. With the total taxes lumped together in these periods, shareholders are going to receive a shock in many cases, for the earnings will look a good deal lower than any reported for some time.

Actual and Projected Tax Impacts on Earnings

(First six months, 1951)

	Pre-Tax Earnings (Millions)	Total Taxes (Millions)	% of Taxes to Pre-Tax Earnings	Net Income as Reported (Millions)	Net Income Projected On 70% Ceiling Basis (Millions)	Projected Net Per Share Based on 70% Tax	Reported Net Per Share
Allied Chemical & Dye	$ 58.0	$ 35.9	62.0%	$ 22.0	$ 19.2	$ 2.18	$ 2.49
Armco Steel	52.5	31.9	60.8	20.6	17.5	3.34	3.93
Bendix Aviation	16.5	10.0	60.7	6.4	5.5	2.59	3.06
Borg-Warner	28.8	17.2	59.9	11.5	9.7	4.05	4.84
Food Mach. & Chemical	13.1	8.0	61.0	5.1	4.3	1.81	2.11
Inland Steel	51.0	31.8	62.3	19.2	17.0	3.45	3.92
Reynolds Metals	27.7	17.4	62.9	10.2	9.1	6.22	7.00
United Aircraft	16.8	10.5	62.5	6.3	5.0	1.57	1.78
U. S. Steel	286.7	180.0	62.7	106.7	94.4	3.20	3.61
Vanadium Corp.	2.6	1.5	60.3	1.0	.9	2.26	2.69

This refiguring will indirectly produce a good deal of distortion in forthcoming quarterly reports but it would be just as well for the shareholder to anticipate the inevitable disappointments that are going to materialize.

In Table I a list of important corporations is given together with essential data on the relationship between their first half earnings and taxes. These companies have all accrued their taxes at about the last prevailing ceiling rates of 62%. We have, for the convenience of our readers, projected these earnings on the basis of a 70% ceiling rate, which is now the new basis. On this basis earnings would have been considerably less than reported. The second table gives a list of companies which have accrued their taxes for the first six months at or near the new 70% ceiling rate so that they will have no problem with respect to paying retroactive taxes for that period.

With the new higher taxes, not only will corporation profits be affected but also their plans for expansion. Corporations spending billions of dollars for new facilities to supply defense requirements will find it more difficult to finance new construction without resorting to more borrowing than they anticipated. However, many of these projects are under way and cannot be interrupted or postponed. Since the margin between earnings and dividends will be narrowed to some extent by the new taxes, corporation officials in some cases will have to decide between going ahead with their new plans for expansion and re-examining their dividend policies, especially with respect to extra dividends.

No Wholesale Cutting of Extra Dividends

This does not mean that a wholesale lopping off of extra dividends is expected but rather that the prospect for extra dividends has been somewhat dimmed. Fortunately, for some companies, high taxes in a period of expansion are ameliorated to some extent by the provision for accelerating depreciation on projects deemed vital to the defense effort. Total depreciation, of course, must be accounted for eventually but it is true that for the earlier years of the new projects, a tax savings is made possible.

With the higher ceiling rates in effect, excess profits exemptions are of especial importance, since the higher the exemption, the less the vulnerability to excess profits taxes. Since not all companies were uniformly prosperous in the base period of excess profits, 1946-1949, the degree of susceptibility to these taxes varies widely. Some which were not faring well at that time have a low base and hence a proportionately high excess profits tax as their earnings spurted under re-armament conditions. Other companies had their base period depressed as a result of abnormally high expenditures for new development of property and equipment.

Among the more important industries which have a relatively favorable excess profits tax base are: air lines, distillers, petroleum (especially on account of favorable depletion allowance), railroads and public utilities, which are given special treatment, owing to the inflexibility of their rate structures. Others which have a favorable exemption base are: automobiles, steel, paper and department stores. Among those which have a less favorable base are: aviation manufacturing, electrical manufacturing, grocery chains, mail order, chemicals and rubber.

Varying EPT Impacts

There are some variations EPT. exemptions among individual companies within industry. Thus, Jones & Laughlin among the steel companies has an exemption base of only about 68% of estimated earnings for this year whereas most of the other companies in this industry have over 80% of their earnings exempt from the excess profits tax. Among the drug companies whose earnings are about 70% exempt, Squibb pays practically no excess profits tax, but Merck has quite a low base of about 55%.

The chemical group as a whole is subject to very heavy excess profits taxes with an average of only about 53% of net income exempt from the excess profits tax. The automobile group is about 84% exempt. Ironically, while this figure for the automobile group is favorable, it will not be of especial help this year in view of the fact that earnings are going to be sharply curtailed during the second half on account of the cuts forced in automobile output by the government.

As a matter of fact, the question of excess profits is of more or less theoretic interest at this time to a number of other industries, mostly in consumers' lines who have not been faring too well recently on account of poor conditions within these industries. Several among these are: textiles, moving pictures, household furnishings and most retail businesses. Actually, excess profits are of concern presently mainly to the durable goods industries, especially those producing for defense purposes.

It is safe to say that higher taxes are going to bring down the earnings of nine out of ten companies, at least. Second quarter reports have already commenced to show that despite enormously high sales volume and output, taxes were whittling down the rate of profits. This process will be accelerated during the balance of the year and for as long as high taxes remain.

While taxes are not the only variant in estimating

earnings probabilities, they are increasingly becoming one of the dominant factors. Several hundred illustrations can be found among companies reporting for the first half, showing declines in profits despite higher sales and production. A few among them are: Eastman Kodak showing $1.53 a share against $1.73 for the same period last year; Revere Copper & Brass down from $3.58 a share to $3.25; Inland Steel (second quarter) from $2.13 to $2.02; Deere & Co. from $6.13 to $4.72; Interchemical Corp. from $2.64 to $2.11; McGraw Electric from $4.42 to $4.03; Bridgeport Brass (second quarter) from $1.15 to 93 cents and Avco Corp. from 67 to 61 cents. While taxes were not the only factor in these declines, they were among the most important and, in some cases, the only factor.

An idea of the immense sums paid out in taxes by the largest of our corporations may be gained from the tax payments made in 1950 by the respective companies enumerated herewith: American Tel. & Tel. $999 million, equivalent to about $33 a share; General Motors $1536 million equal to about $17 a share; Standard Oil of New Jersey $571 million equal to about $10 a share; General Electric $299 million, equivalent to almost $11 a share, and U. S. Steel $297 million or over $11 a share.

Unequal Partnership

The investor cannot be blamed when he looks at these enormous sums and feels that his partnership with Uncle Sam is too much of a one-sided proposition. But this year, the Government's slice will be even larger and with it diminishes the prospect for higher dividends. One should not take too despondent an attitude, however, for even with the higher taxes, the margin for regular dividends still remains substantial.

U. S. Steel, for example, which earned $7.29 per share last year should come close to earning $6.00 a share this year, ample coverage for the regular $3.00 annual dividend. Allied Chemical which earned $4.65 last year may have its earnings cut down to about $4.25, but the 75 cent quarterly seems in no doubt in view of the company's great financial strength. Bendix Aviation Corp. which showed $8.01 per share last year should earn at least $6 a share this year, which provides a good margin for the regular 75-cent quarterly rate. Borg-Warner earned $12.16 a share in 1950, and estimates for this year are about $8.00. While this represents a rather sharp decline, the dividend of $1.00 quarterly per share is still being earned by a 100% margin.

We cite these few examples to illustrate the fact that higher taxes, while severe, will not in all likelihood affect the ability of the strongly entrenched companies to continue their dividends. In many cases they will be able to pay their usual extras, although the margin for such payments is now narrowing.

From the market standpoint, earnings reports covering the third and fourth quarters, for the reasons given, are not likely to have a stimulating effect in most cases. As these reports accumulate, investors will have to do some new figuring and revise downward their estimate of the full year's earnings. This cannot help but have a sobering effect on market sentiment. Earnings reports from now on, therefore, will be watched with more than usual attention.

Investors who hold stocks in companies affected by excise taxes should realize that the $1275 million in new taxes sought through higher imposts may have some effect in diminishing sales. Among the more important increases are: distilled spirits from $9 to $10.50 a gallon; cigarettes from 7 to 8 cents a pack; gasoline from $0.015 to $0.02 a gallon; passenger cars from 7% to 10% and trucks, buses and auto accessories from 5% to 8%. Under present conditions of high living costs, there is a reasonable question as to whether these new taxes can be passed along in their entirety to the public. Therefor, the industries represented by the above goods may be adversely affected.

Effect of Higher Taxes on Market

In conclusion, while the corporate tax as always is a very complicated affair and one with which the average investor is not too familiar, the general outlines of the new bill are sufficiently clear and stockholders should realize that the higher rates will bring earnings down. From the statistical standpoint it is important to note that earnings for the second quarter of the Dow Industrial Average amounted to $26.12, a reduction from the first quarter when the figure stood at $27.84. Both these figures contrast sharply with the record earnings of $38.28 in the last quarter of 1950. Based on the higher taxes, these averages probably will show a further decline in the third and fourth quarters. Therefore, it is obvious that the enormous momentum of rising industrial earnings which has been taking place for well over a year is now finally being checked by the ever increasing burden of taxes.

Stated in another way, the question arises whether the market has given sufficient attention to the tax-created drop in earnings that will materialize in the balance of the year. Sooner or later, the value of stocks which depend in the final analysis on earnings, must be reflected in a realistic market appraisal. The fact that earnings were high during the earlier part of the year should not distract the investor's attention from the strong probability that they will be lower in the second half. It is not surprising, then, that the market is now commencing to give heed to this factor.

Companies That Have Accrued Taxes at Close to New Ceiling Rate of 70%

(First 6 months, 1951)

	Pre-Tax Earnings (Millions)	Total Taxes (Millions)	% of Taxes to Pre-Tax Earnings	Reported Net Per Share	Net Per Share On Basis of 70% Ceiling
Continental Diamond Fibre	$ 1.9	$ 1.3	68.4%	$ 1.33	$ 1.30
Continental Steel	3.3	2.2	68.7	2.09	2.04
General Tire & Rubber	11.2[1]	7.8	70.0	5.48[1]	5.48
Goodrich (B. F.) Co.	60.0	41.9	69.8	3.80	3.78
National Malleable & S. C.	6.9	4.7	67.8	4.71	4.56
Pittsburgh Screw & Bolt	5.0	3.4	68.5	1.05	1.02
Republic Steel	85.7	59.0	68.7	4.39	4.32
Rohm & Haas	13.4	9.4	70.3	4.71	4.73
U. S. Rubber	59.0	42.5	72.2	7.85	8.09

1—6 months ended May 31, 1951.

Outlook for . . .

CIVILIAN SUPPLIES

Under New Cutbacks

By WARD GATES

Newly ordered cutbacks of consumer hard goods production have caused fresh conjecture concerning a progressive tightening of supply and ultimate shortages, but the prospect is that real shortages, if they should occur, will be a fairly long way off. Because of existing heavy inventories, the supply for quite some months ahead will be more than ample to satisfy foreseeable demand, and even at reduced production rates may be in fairly close balance next year.

Nor will the new cutbacks *per se* cause any great disturbance in affected industries since in many cases, output has already been reduced in an effort to adjust it to lagging demand. Production and earnings are bound to be lower because of sluggish sales rather than additional cutbacks.

Further curtailment, to become effective in the fourth quarter, is primarily motivated by the desire to tailor industrial operations to the supply of basic metals, and is aimed at less essential goods such as household appliances, television sets and radios, etc., production of which is to be cut to 58% of the pre-Korean base rate (first half of 1950). Heretofore, the production allowable in these industries was 70%. Automobile production is to be trimmed to 60% from previously 65%. On the whole, however, the lower rates are little different from actual current production. The latter in some lines is even lower.

The new production allowables are based on the amount of steel allocated to civilian industries. But steel in itself may well prove meaningless unless other vital metals are also available in corresponding quantities and in this respect, copper may prove a real bottleneck. Autos make a good example. The fourth quarter production goal is 1.1 million passenger cars, only 100,000 below the third quarter figure. The steel allocation of 1.6 million is doubtless adequate, but not so the available copper supply. Hence the auto industry told the NPA that actual fourth quarter production may be more nearly around 800,000 cars unless more copper is allocated.

Be that as it may, the auto industry's assembly plants are currently running at only about 50% of capacity, pointing for the balance of the year to a monthly output of rather less than the new 60% allowable. Declining demand, apart from certain materials problems, played a role in this voluntary cutback. Current production, even at the lower level, at any rate appears sufficient to satisfy current slow demand and moreover, dealers' inventories of new cars are equivalent to at least one month's production. No car shortages are in sight for the balance of the year. What about 1952?

How Many Cars in First Quarter?

While no definite decision apparently has been reached as yet on the output to be allowed the auto industry in the initial three months of next year, unofficial estimates range from 812,000 to 1,045,000 passenger cars. The latter would mean no great change from the fourth quarter allowable, but the former would mean a rather drastic cut. Still it might prove adequate to meet demand, the first quarter normally being rather slow in the new car business. Even more reassuring is the avowed intention of the controllers to allow the industry enough raw materials over the year to assure a total output of not less than four million passenger cars in 1952. That should be enough to meet foreseeable demand—which no one expects to duplicate this year's anyhow—barring renewed scare buying which is unlikely unless the international situation should deteriorate alarmingly.

A four million new car output would compare with anticipated 1951 production of some 5,150,000 passenger cars and 1950 peak output of 6,670,000 units. There is more than a little speculation as to

how many vehicles the industry would have built this year had there been no curtailment of its materials supply, and—one might add—had there been no scare buying during the earlier part and no subsequent production boost in anticipation of later cutbacks. Had normal conditions prevailed, the industry may not have built more than it did anyhow, possibly even fewer cars.

Four Million Passenger Cars in 1952?

The auto industry's break-even point has been estimated at about 3,350,000 cars annually and NPA will naturally strive to set production at a level above this point, thus a four-million car allowable for next year would appear in the nature of a minimum. It will mean considerable decline in earnings for the auto makers since defense work can only partly offset, and for some time probably only modestly so, the profit loss arising from lower auto production. Because defense work in relation to civilian work is relatively small, the authorities have an interest in permitting auto output as high as compatible with defense materials needs – if only to prevent serious unemployment. That's why we think that a four million car output next year will likely be a minimum expectation—barring a further speed-up in rearmament. On that basis, the prospect of a genuine car shortage would appear greatly minimized. Output will probably be smallest in the first and second quarter, with a subsequent raising of production goals as the materials pinch eases.

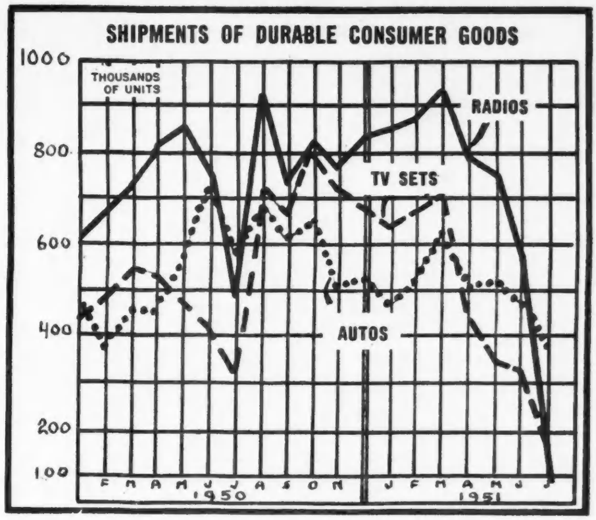
The outlook is similar in other consumer hard goods, particularly household appliances, with the difference that inventories generally are relatively higher, further minimizing any shortage potential. Probable demand next year is not likely to exceed available supply.

Take electric refrigerators. Manufacturers' and wholesalers' stocks are estimated to be three times what they were a year ago, aggregating more than one million units. Right now they are hard to move despite selling drives, price cuts and somewhat easier credit terms. Decline in home building has hurt sales. Average monthly shipments in the first half of 1950 came to about 497,000 units. A 58% cutback thus would mean a production allowable of something like 293,000 units.

There are no precise data available about the current production rate but output is known to have been pared quite drastically. It almost certainly is below the 58% allowable, perhaps considerably so, and it would require a strong recovery in demand to create a shortage. Right now the big problem is to ease the glut in jam-packed warehouses. Under NPA's latest quota, refrigerator production would be cut back to about 3.5 million units, possibly four million, which would compare with some 5.3 million units shipped in 1950. That would still be a sizeable supply, considering the new demand conditions and outlook.

Large inventories of gas and electric ranges, washing machines, radios and television sets also must be considered as insurance against any relative scarcities next year despite curtailed output. Washing machines may constitute the only possible exception because of fairly well maintained demand for them.

TV sets of course are a classic example, with manufacturers' stocks estimated at 655,000 units

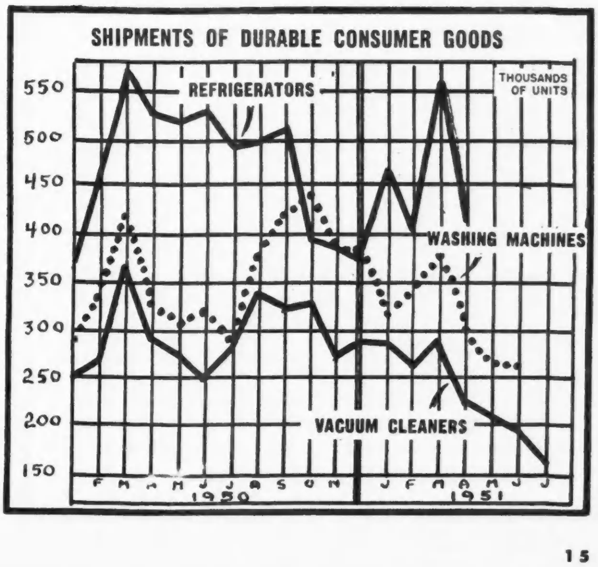


and sales continuing sluggish. Reflecting the present glut, output has been drastically reduced since April and for the month of July, shipments were estimated at some 152,000 sets compared with 327,0000 in June and 679,000 in February. For the entire year, total production may not come much higher than 4.2 million sets depending on the future trend of output, though some estimates run as high as 5.3 million.

No Shortage of TV Sets Indicated

Either figure would seem to constitute a fully adequate supply. The production cutback to 58% of the base period would permit output of some 303,000 sets monthly, almost double the monthly shipments in July. This being so, the cutback is of merely academic importance until demand revives to a point where a considerably higher production would be required. At any rate, shortages are difficult to anticipate.

In home radios, the situation is pretty much the same. Manufacturers' inventories are estimated around 350,000 units or double what they were a year ago. Demand, while latterly somewhat improved, is by no means vigorous. Production has been curtailed sharply (*Please turn to page* 44)



DIXIECRAT CAMPAIGN POLICY

By E. K. T.

CUSTOMS provisions for many years held rank on Capitol Hill compared to this day's quarrels over domestic controls, formed the solid basis on which the protective tariff republicans and the free trade democrats built their parties. Then the subject dulled, mothballed by the reciprocal trade agreement program and other developments until few congressmen cared to discuss the prosaic subject, many weren't even conversant with it. Now it's popping up again. A bill to simplify regulations became, itself, so complicated that the House Ways and Means Committee decided to call a halt to hearings, hold it over for consideration when the new congress comes in next January.

WASHINGTON SEES:

The states righters, more familiarly known as the Dixiecrats, have formally launched war on President Harry S. Truman, convinced that he will be a candidate to succeed himself, reactivated and enlarged the quarters of their Washington command, and established what seems lately to be regarded a necessary part of any "movement," namely, a tabloid newspaper—"The States' Righter."

Right off, the group which put a ticket in the field in 1948, has knocked in the head the Republican-Dixiecrat coalition idea fathered by Senator Mundt. Around states righters' headquarters they're talking in terms of victory although their ticket carried only four states last time, picked up a single electoral vote in another.

There is no attempt to hide the strategy. The southerners will attend the democratic convention as regular party members. They'll put their own ticket in nomination, get the benefit of the national coverage by press, radio and TV (for which the regular party will pay); then they will take a walk and set out on their own. They have no hope of stopping Mr. Truman in the convention. "We," said a headquarters spokesman, "will be ignored, insulted and invited to get out and stay out—if we are seated to begin with." And the accompanying smile reveals that this harsh treatment is exactly what is wanted.

And the formula for victory: the South can command 125 electoral votes, keep any candidate from obtaining a majority, throw the election into the House where the vote is by states, vote solidly, then absorb some GOP territory. Simple?

CONCERNED with the subject of customs for many years was a small agency set off in a corner of the Treasury with substations at ports of entry (airports later included and a police force with a facility for dramatic publicity. The rules were rigidly fixed by congress; you paid according to well-thumbed printed schedules, or you smuggled. And, if the latter, you probably paid sooner or later anyway. Not so today. If a foreign country imprisons an American newspaperman, the import from that country is halted or curtailed as a sanction; and shuffling foreign currencies also rewrite the schedules. Other factors count. Small wonder the house committee found simplification too confusing.

USUALLY dramatic happenings – military policy, scandals in high places, domestic controls—will provide campaign "ghost writers" and campaign book authors a happy workshop for the next election but an old, tried and true standby—"the farm problem"—isn't going to be overlooked. A group of 17 senators (all of whom happen to be Republicans), have introduced a resolution which will result in investigation of the financial activities of the U.S. Department of Agriculture, including the Commodity Credit Corporation. Has any official USDA personally profited, financially or politically, is one of the major questions to which answer is desired . . . before election day.

TIDELAND oil controversy may be settled on a compromise program pending more formal agreement. The Senate Committee has not yet approved a House bill which would quit-claim the submerged lands to the states. Senator Joseph O'Mahoney is opposed to it, can keep it from coming up for consideration.

As We Go To Press

The revised Defense Production Act now is two months old but confusion in the agencies and in congress (also, the mail indicates, among businessmen) seems greater than ever. The Administration wanted a stronger law, and a majority of congressmen still feel the statute is too strong. And both sides are acting as though their views, while not found in the written act, should permeate enforcement. President Truman, when he affixed his signature, called it the "worst" he had ever signed, and on Capitol Hill there's charges that the Executive seems determined to prove it the worst, abetted by his appointed administrators.

The federal payroll, numerically and in point of salaries, and wages is still zooming. Spiralling it to new heights seems to be a joint enterprise with the Administration adding personnel on all sides and congress furnishing the other factor -- boosted base pay. For the first time in history -- peacetime or otherwise -- the civilian rolls carry more than 2.5 million names. Economic Stabilization Agency, somewhat belying its name, added 1,109 employees in a single month. President Truman and the congress each told the other to economize, then jointly acted to make economy unattainable.

New restrictions on parcel post will have serious impact on retail merchandising and the clientele it serves. Congress has for long preached a doctrine of taking the Post Office Department out of the freight business, and by limiting the weight and dimensions of packages that will be handled by that agency, may have accomplished that in a degree. But the lawmakers also may have left a considerable area without the old, or a substitute facility.

Like the single-delivery-a-day mail service, the parcel post issue will gain momentum when its effects are felt, especially in the hinterland. It is the articulate rural area which will be hit. The retail dry goods trade associations already are in action and it is possible that congress may reverse itself. The argument for the legislation is not one likely to be calmly received by users of this service; that it will help Railway Express Agency. It isn't even logical! Thousands of communities throughout the country, with second class post offices, aren't even served by Railway Express Agency. Meanwhile, retailers are being advised by their Washington legislative representatives to make two packages out of one wherever possible -- further crowding the post offices and mail cars.

Farmers finally have convinced congress they aren't crying "wolf" in their efforts to demonstrate that food quotas cannot be met unless agriculture is given a larger share of the allocable steel for implements and chemicals for fertilizer and pesticides. The senate committee on agriculture has started hearings which are likely to go beyond the adjournment date for congress. Ordinarily, inquiries by committees would be futile if no time remained for legislating their findings into practical use. However, in this instance it is reasoned that the allocating authorities will follow the expressed will of the senate on the basis of the hearing record.

Cotton state senators haven't given up the idea of stockpiling their principal crop although the lack of encouragement given them would quiet less hardy souls. The cotton belt senators, rebuffed by the Department of Agriculture and the military services, are now working with the congressional committees on armed services. It has been explained to them that no government agency is permitted, under the stockpiling act, to invest money in, and store, commodities which are neither in short supply nor available in the United States. The exact opposite is true of cotton; in fact that's the root of the growers' troubles. They have too much of it -- here.

The cotton crop is so large that a depressed market is inevitable if a substantial part of it is put up for sale. Stockpiling would be one solution, storing it

on loans another. Besides the Department of Agriculture and the Pentagon, the Munitions Board has said a loud "no" to the proposition. Chairman John D. Small of that agency says even an all-out war wouldn't strain the availability of cotton in the open market and at "right" prices.

But cotton cannot be counted out yet. It may still be "king." The shot-in-the-arm of political motivation mustn't be discounted. President Truman is in the driver's seat and it's an attractive spot in view of the fact that the Dixiecratic, cotton-producing states probably have no other place to look than to the man they opposed in the last election, formed a new party to defeat him, only to discover that a democrat could win without the Solid South. But Mr. Truman is a practical politician (he learned that in Missouri days) and he's probably anxious to make peace -- on his own terms. Senator Stennis, Mississippi, says the cotton group is preparing a brief of the facts to be presented to Mr. Truman. That conjures up interesting forecasts!

Senator Sparkman of Alabama, has introduced a bill which may prove to be a "sleeper." The parliamentary-wise solon (the only man who was a senator and a member of the lower house at the same time; the former elective and the latter sitting, but the latter held until he cast a deciding vote on major legislation) isn't worried about adjournment. The Sparkman bill would authorize a new appropriation of $300 million for direct loans to war veterans who cannot get 4 per cent home loans commercially. In the event congress balks, he will propose an alternate plan of using reserves built up by the GI life insurance program. Today, about $44 millions remain available in the fund for direct loans. That would finance a good many GI homes and Sparkman believes it would be as good an investment as any. Colleagues, who probably won't pass his bill, don't violently disagree.

And further on the subject of housing, the Atomic Energy Commission has come up with an idea which introduces new elements into a field thought to have been fully explored in the past score of years. It's a project to get temporary housing for construction workers at the big AEC Savannah River plant. It will guarantee rents on family type housing in the form of trailers and on dormitories for single men. The contractors will look to occupants to pay their own rents for facilities provided, but AEC will foot the bill for vacant space at the same rate as that for occupied units. At the end of the three-year period, when construction of the plant has been completed, contractors will remove the facilities and will be paid a stipulated settlement cost intended to round out amounts from rent collections and salvage so as to return investment cost with reasonable profit.

The political situation within the republican party will jell during the period of congressional adjournment, probably touched off by a formal announcement of candidacy by Senator Robert A. Taft. That will smoke out other hopefuls. It is known that the Ohio senator would prefer to let things run along as at present, standing on his assertion that he will run if convinced a winning combination of electoral votes wants him to do so, promising a formal statement one way or another around the first of the new year. His political managers while optimistic don't see the road ahead that smooth, don't regard the nomination Taft's for the asking.

There's talk now that General MacArthur will have himself elected a delegate to the GOP convention, engineering it through friends as inauspiciously as possible, then try to stampede the voting by either a nominating or a seconding speech for Taft. Not a handful of politicians "in the know" believe General Mac has any personal ambitions but he's in the public eye so much it would be difficult to sell them the idea that he doesn't intend to play a hand.

Further expansion of the aluminum industry will be pressed by the Government despite problems of adequate electric power. Before the power shortage hit light metal production in the Northwest, officials asked the industry to consider a new expansion program of upwards of 200,000 tons a year. Now the urge for more aluminum gets stronger, not weaker as Congress and the Administration are anxious to go ahead with plans for a bigger Air Force. Officials think that aluminum plants now built and building -- to produce some 1,310,000 tons a year by 1954, up 79% over pre-Korea -- won't be enough.

SPAIN—*New Link . . . .*
Against Communist Aggression

By V. L. HOROTH

A number of new links were forged last month in the chain of alliances binding the still-free nations together in the struggle against communist aggression and Soviet imperialism. The peace treaty signed in San Francisco places Japan squarely in the non-communist camp. A regional security pact with the Philippines, Australia, and New Zealand establishes a barrier against communist aggression in the Pacific area, and at the "family" council of the N.A.T.O. nations in Ottawa, it was agreed in principle to admit Greece and Turkey into the "Atlantic Community" of nations. Next on the agenda is Spain, which stands high in importance in the general defense of Western Europe because of its invaluable strategic position and large potential army, but which poses a number of special problems that could become political "dynamite" both abroad and at home.

Because of these special problems, the forging of the "Spanish link" in the worldwide system of anti-Soviet pacts must be carried out by the United States alone, after the strength of the other links—particularly of those that bind us to other Atlantic nations—has been tested. Spain must come after other countries have been taken care of, but once that is done, there is no reason why our understanding with the Franco regime should affect our other alliances even if we should be accused of seeking a fascist ally. Certainly we have not let the fact that the Labor Government recognized Red China affect our dealings with Great Britain. An understanding with Spain is regarded as the same kind of expedient as that which made us associate with Tito's Yugoslavia or cooperate with Stalin himself during the war against Hitler.

Some kind of understanding with Franco's Spain has been discussed ever since the outbreak of the cold war between the East and West. But until last year, little progress was made, the main reason being that there were too many obstacles and objections to be overcome. In the first place, in those European countries where policies are influenced by socialist or leftist parties, there has been bitter opposition to any with Franco Spain. Even in this country, the politicians and military experts still cannot decide whether the practical advantages of an arrangement with Spain outweigh the costs of economic aid to a government supported by a minority and tolerated by a majority only because the memory of a disastrous civil war is still fresh. Moreover, until last year, Generalissimo Franco's attitude gave little or no evidence of meeting us halfway and of making any concessions to our views.

Agreement in Mutual Interest

However, under the pressure of circumstances, both Washington and Madrid have come to feel more and more that some kind of military and economic arrangement might be profitable for both. The tremendous progress made by Western Europe with the aid of the ECA, impressed many Spaniards who saw their country, proud but alone, facing a succession of economic crises, most of which could have been avoided through a relatively small dose of foreign aid. A series of particularly dry years since the end of the war resulted in a serious economic setback. Instead of spending hard-won foreign exchange for capital goods to build up her industrial capacity or to buy such raw materials as cotton for her Catalan mills, Spain had to buy wheat and other foodstuffs in order to prevent famine. The result of all this has been that Spain's economic achievements of the postwar period stand far behind those of her neighbors.

In Spain as elsewhere, the post-Korean developments added new difficulties. Although the current harvest is probably the best since the war, high prices, as in the case of other European countries, have widened the import gap. And, as will be seen from the accompanying table, the gold and dollar

Spain—Economic and Financial Statistics

	Industrial Production (1940 = 100)	Foreign Trade Imports (Millions of peset.)	Foreign Trade Exports (Millions of peset.)	Currency Notes (Billions of peset.)	Bank Dep. (Billions of peset.)	Wholesale Prices (1937=100)	Cost of Living (7-'36=100)	Stock Prices (6-'36=100)	Gold & Dollars (Mil.)	Peseta per Dol. Black Mkt.
1937	......	......	......	9.2	......	100	......	......	581	......
1946	115	302	266	22.8	35.8	319	361	194	127	23
1947	111	396	306	26.0	42.3	373	424	261	124	35
1948	110	470	361	26.5	45.0	400	453	183	125	37
1949	115	454	380	27.6	50.7	428	478	152	101	45
1950	136	392	389	31.7	58.5	505	528	146	82	52
1951										
First Quar.	150(a)	83	113	30.9	59.8	645	584	168	78	51
Second Quar.	......	......	......	......	......	660	......	......	79	48

(a)—End of February.

resources, now less than $80 million, are too small to be of any real help. Another twist in the inflationary rise of prices, which brought the cost of living last summer to a level about seven times as high as before the war, was apparently too much for the hard-toiling Spanish worker, whose pay is even less than that of a worker in Italy or in communist Poland.

For the first time since he assumed power, El Gaudillo, General Franco, was faced last summer by a series of serious strikes—in San Sebastian, Bilbao, Barcelona and even Madrid—which were interpreted as a kind of warning. However, no change in the regime is expected. Since opposition groups, ranging from old royalists to underground communists, are fighting each other as hard as they are fighting Franco.

Changing U. S. Attitude

In the United States, views on cooperation with Spain have also undergone some change. Congress in particular was impressed by the fact that the country had the largest standing army in Europe and, if weapons were available, could put some 2 million men in the field. After much discussion, the ECA was authorized last fall to lend Spain $62.5 million from its funds "for the stabilization of the Spanish economy and the strengthening of the Spanish Army."

Meanwhile the Administration also got around to entering into "exploratory discussions between our military experts and the Franco regime." Possibly this may have been done with an eye on the 1952 presidential campaign. Cooperation with Spain has been sincerely urged by the Roman Catholics; moreover, aid to Franco's regime will silence many of those critics who have deplored aid to Tito's Yugoslavia. But doubtless, military and strategic considerations were the primary motive.

The visit last summer of Admiral Forrest E. Sherman to Madrid bore fruit, and today we have in Madrid a military mission headed by General James W. Spry. Once the "exploratory stage" of the discussions is over, some kind of an agreement may be arrived at. Our objective seems to be a modernization of Spanish airfields and naval bases so that they would be ready for immediate use in case of war. The Franco regime apparently has no objection on this point. The question is, what will be demanded from us in addition? El Gaudillo will probably ask for assistance in the modernization of the Spanish army and of the air force in particular. Credits to bolster up the more or less ramshackle Spanish economy will very likely be asked for also.

The original idea was that Spain would be used first as a haven, protected by "the barrier of the Pyrenees," for the retreating West European armies, and later as a springboard for the reconquest of Europe. But this idea is abhorred by our N.A.T.O. allies who dread being "liberated" all over again. Besides, no retreat might be necessary if our own and Europe's defense preparations continue to make good progress. Furthermore, it is a question whether Spain's worn-out and generally inadequate transportation facilities could serve as a staging area.

A newer conception is that Spain could be built into a vast "aircraft carrier" and into a "mooring dock" for Allied naval and supply ships. There is no question that Spain could perform these functions. It is nearer to the United States than any other Continental country. There is scarcely anywhere in the world as ideal a location for huge modern airfields as the Spanish "meseta," a series of great upland tablelands which cover two-thirds of the Iberian peninsula.

Rimmed by mountains and river gorges, each of these high plateaus could be defended independently. There is an abundance of natural harbors, particularly in the northwest, in Galicia and Cantabria, where deep bays penetrate inland, forming excellent roadsteads which were put to good use by German submarines during the last war. There are famous old ports such as Vigo, Corunna and El Ferrol to which galleons brought the treasures of the New World. They could be built into impregnable naval bases. Another advantage is the nearness of these ports to Spain's industrial centers (Bilbao, Oviedo, Santander), with their steel and machinery industries, zinc mines, and the best coalfields on the peninsula.

The Spanish Army

Last but not least, there is the Spanish army which, though sparsely equipped with modern weapons, has nevertheless one of the highest effective combatant ratios. The wartime footing is about 2,000,000 men. Mostly of peasant stock, Spanish soldiers, brave, tough, and hardy, are rated among the best in Europe.

This is one side of the picture. On the other hand, say military experts, we are already building airfields in France which, to provide air cover for Gen. Eisenhower's armies, are more practical than the

distant Spanish bases. Moreover, we are committed to building many more airfields in Western Europe. As to the needs of long-range bombers, the airfields built or being built in French North Africa, Libya, and probably in Turkey, are far more strategically located for an attack on Russia's "soft belly," the Ukraine and Upper Silesia than are the Spanish bases.

Value of Spanish Alliance

Similarly, we are already building naval bases and supply ports along the coasts of France, North Africa, and Italy. As to the Spanish army, it is doubtful that our European Allies would consent to its incorporation into the present all-European army. Besides, there is no assurance that General Franco would allow his troops ever to leave Spanish soil.

Hence the value of a Spanish alliance lies in protecting the rear. No doubt if Spanish airfields and naval ports are modernized, the defense of Western Europe would be more efficient and the N.A.T.O. hold on the Continental approaches firmer. On the other hand, Spain in communist hands could be nothing short of disastrous. Hence the problem is partly economic. Better living conditions for the city worker and assistance to the Spanish farmer to enable him to raise more food are essential if radicalism is to be avoided. This necessity is recognized even by the Spanish Roman Catholic Church, which last spring warned the government that "the internal peace of the people is imperiled" by corruption and the oppressive state of affairs.

A casual visitor to Madrid would be impressed by the reconstruction and the showiness of the Spanish capital. Statistics also show good progress. Industrial production this summer was some 50% greater than in 1940, the first post-civil war year. Moreover, the Government can point to putting on the map such plants as the Asturias steel mill and the Escombreras oil refinery, which are contributing to the self-sufficiency of the country.

But the average tourist who finds Spain—at 50 pesetas per $1—one of the cheapest and most delightful countries in which to travel, usually knows little about the plight of the wage earner, and of the miserable living conditions in provincial cities. He may, however, notice that railroad service is poor and that highways are deteriorating. The truth is that the whole Spanish economy needs overhauling, modernizing. The country could use some 15,000 to 20,000 trucks and tractors and should replace half of its railway equipment. Factories need new or more machinery and raw materials.

If the country is to feed herself properly—which is a problem in itself in view of increase in population now approaching the 29 million mark as against 24 million in 1930—she must have draft animals, tractors, fertilizers. If crop yields, now among the lowest in Europe, are to be raised, something must be done about water conservation and irrigation. The building of reservoirs for water storage and power generating is a "must" in a country where lack of rainfall in one season results not only in crop failures, but in interruption of industrial production as well.

The cost of putting Spain on her feet economically would be enormous. In 1948, the Banco Urquijo estimated that $750 million of foreign aid would be needed. A year later, the Banco Hispano-Americano estimated the cost at about $1¼ billion. Today it would be at least $1½ billion, apart from the cost of army modernization and the rebuilding of air and naval bases. It is difficult to see how the United States would appropriate that much money for a project of doubtful value, particularly since we are insisting on cutting drastically the ECA aid to the N.A.T.O. nations. Moreover, to spend that much money without some kind of supervision and without some strings attached to it, might lead to the dissipating of most of it, in much the same way as happened in Nationalist China.

The granting of loans to Spain from ECA funds (25-year loans, bearing 3% interest) is supervised by the Export-Import Bank. Loans are made for projects that encourage the export of U. S. merchandise such as cotton, or favor the output of scarce or strategic materials. However, it is claimed that up to the recent Cabinet shake-up, the all-powerful Minister of Industry and Commerce, Sr. Jose Antonio Suances, always a strong protagonist of government-sponsored enterprises—coal, steel, chemicals, cement, had a lot to say as to *who* was to be allowed to apply for a dollar loan.

Use of ECA Funds

Among the credits granted, the most important have been those providing for the purchase of cotton, fertilizers, tractors, spare parts for trucks, motor vehicles and tractors, equipment for fertilizer plants, textile factories, hydro-electrical stations, and mines (copper, wolfram, lead, etc.).

If we are going to commit ourselves to bolstering the Spanish economy to prevent further deterioration and the growth of radi- (*Please turn to page* 49)

United States Trade with Spain in 1948-1950

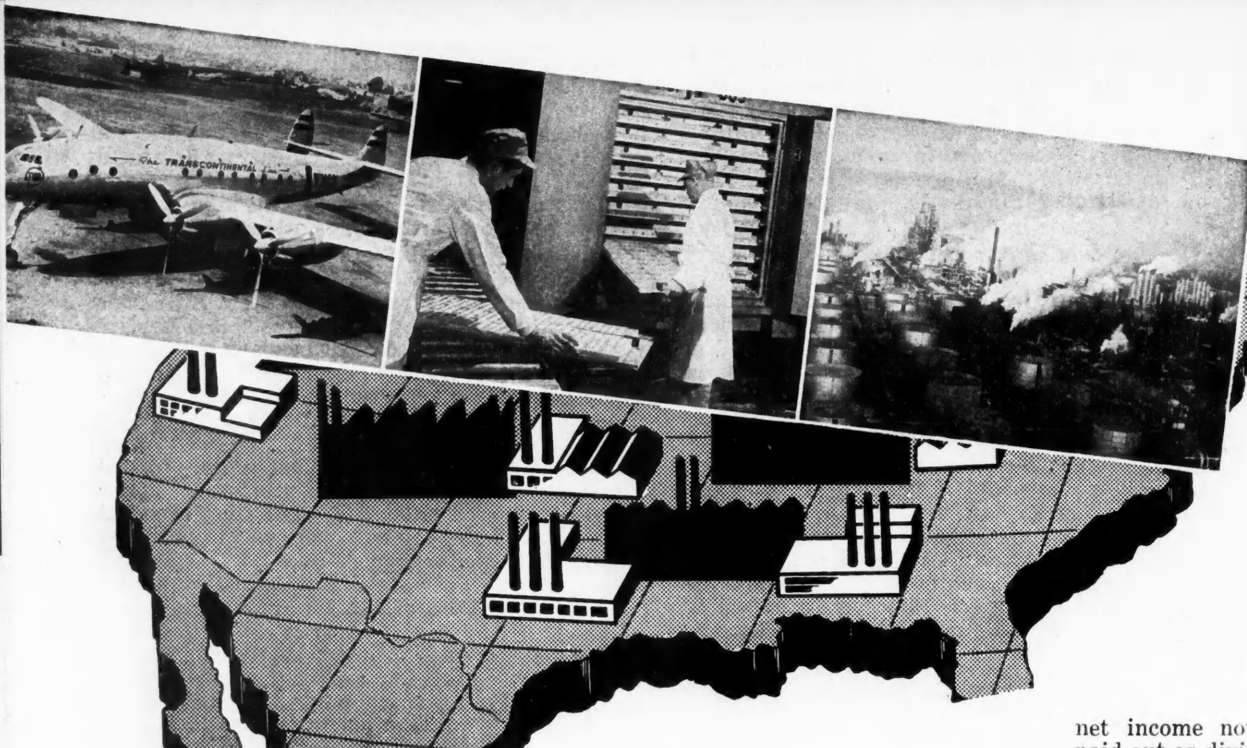
(In millions of dollars)

UNITED STATES IMPORTS FROM SPAIN

	1948	1949	1950
Olives and other fruits, incl. prep.	17.9	13.2	19.4
Olive oil and other vegetable edible oils	3.2	2.3	10.1
Wines and liquors	2.1	1.9	1.7
Spices, drugs, herbs, leaves, roots, etc.	1.7	1.8	1.8
Cork and manufactures	2.1	1.8	2.5
Sardines and other fish products	.8	.6	.6
Nonferrous ore and other metal alloys	.9	.5	1.3
Inedible vegetable oils and waxes	.3	.4	.6
Clay and products	.1	.2	.5
Nuts and preparations	1.3	......	.1
Wolfram and other ferrous alloys	.4	.2	1.3
Zinc and lead scrap, etc.	.8	.2	1.6
Vegetables, etc.	.1	.2	.2
All other products	3.3	2.3	7.0
Grand Total	34.9	25.5	47.8

UNITED STATES EXPORTS TO SPAIN

	1948	1949	1950
Raw cotton	2.3	13.4	13.2
Vegetable oils (edible and fats)	......	6.8	4.3
Wheat and grains	......	3.6	2.7
Vegetable oils (inedible)	.1	2.2	4.3
Petroleum and products	4.9	3.1	1.6
Industrial machinery	3.2	5.3	1.0
Automobile and airplanes	3.6	2.6	1.3
Other machinery	4.3	3.7	5.1
Steel and mill products	.8	1.7	2.2
Chemicals, pharmaceuticals, dyes, etc.	27.	3.2	2.0
Fertilizers	......	......	1.3
Grand Total	25.5	50.2	43.0



Companies Building Future . . . .
Earning Power by Retained Profits

By PHILLIP DOBBS

Growing recognition of the value of retained earnings in enhancing the prospect for increased corporate profits over the longer range has had a pronounced effect in recent months in raising the market price of groups where this factor is a dominant characteristic. While investor interest has concentrated on these groups, especially the oils, drugs, chemicals and rubbers, many other stocks deserve attention as representing companies which are equally following a policy of retaining large portions of their net income for plant expansion and improvement of equipment.

The higher valuation now given retained earnings simply means that individual investors have come to a belated appreciation of this important factor in creating a base for future earnings. Actually, the larger investors, especially investment trusts and insurance companies, have been very conscious of the dynamics inherent in retained earnings for a long time and have, accordingly, based their investment criteria largely on this element.

Thus it is not surprising to find that the larger investment trusts have invested over 33% of their funds in petroleum shares and almost 12% in chemicals—industries in which the factor of retaining earnings is especially important. These large percentages indicate that managers of very large sums for investment are partial to situations in which retained earnings play an important part; or, in other words, they are mainly interested in "growth" stocks for long-term capital appreciation.

By "retained earnings" is meant that portion of net income not paid out as dividends and actively utilized in further development. In recent years, the more prominent corporations have paid to stockholders approximately 50% of their net income using the remainder for plant expansion and addition to equipment, and to bolster working capital. This practice has enabled the companies to increase production and facilities without resorting unduly to new financing. Obviously, when surplus earnings are put back to work in this manner, the stockholder benefits inasmuch as he participates in the increased earnings which flow from expansion. In other words, profits are compounded as re-investment in plant and equipment increases and the results eventually become evident through larger dividends which follow, especially stock dividends and split-ups, in which long term investors are keenly interested.

Profit Retention and Depreciation Policies

One of the principal factors compelling corporation managements to retain an exceptionally large proportion of profits for re-investment in their business is that under present conditions of inflation, depreciation reserves originally set up to cover the initial cost of the plant are by now entirely inadequate and in fact have been so since the end of the war. Today's costs are some 100% to 300% and more above pre-war (1941). Reserves, therefore, must be increased to meet the higher cost of replacement. However, the companies can well afford to do so in view of the fact that the plants have enormously increased in value. Additionally, corporations had to expand their facilities to meet the large demand for their products which forced them to utilize

an exceptionally high percentage of their earnings to be ploughed back into the business.

In the chemical industry, for example, plans have included the investment of very large sums, mostly from retained earnings, for the purpose of expansion. In the year of 1951 alone, duPont will have spent $115 million for new facilities for synthetic fibres and petroleum-derived chemicals. Union Carbide has a partially completed program of $105 million for plastics, petroleum derivatives, ferro-alloys and other products. Dow Chemical will spend from $100 to $150 million for plastics and petroleum derivatives. Monsanto Chemical has a budget of $50 million for further expansion, in addition to which it has a $150 million program involving its subsidiary, Chemstrand, owned jointly with American Viscose. Allied Chemical is spending $50 million and at least this much will be spent next year.

We cite these figures to show the enormous force of the need for capital improvements. It is clear that stockholders in these companies and others pursuing similar policies stand up to gain from what amounts to a pyramiding of profits. It is true that a period of deflation would technically have somewhat of a reverse effect. However, based on investment practice of institutional buyers, it is plain that such possibilities have been taken into consideration and that inevitable set-backs are considered to be relatively temporary. In any case, investment trust holdings of companies which have far-reaching plans for improvement are rarely disturbed. Furthermore, with their ample funds, they are in a position to make stock purchases at lower levels in declining markets, thus securing favorable average prices. Individual investors can also apply this principle with profit to themselves, but it takes patience.

Tax considerations play a large part in influencing sophisticated investors to invest in companies which are actively employing their retained earnings. All things being equal, in a choice between cash dividends and potential capital appreciation, the substantial investor finds it advantageous to subordinate immediate dividend return to long-term capital appreciation. The reason is simple: cash dividends are fully taxable and, of course, subject to progressively higher surtax rates, whereas long-term capital gains are subject only to a 25% tax.

Broadened Earnings Base Desirable from Long Range Viewpoint

The difference may be substantial over a period of years so that the far-seeing investor is perfectly willing to forego a nominally higher immediate cash return in favor of the potential rise in the value of his stock, as this becomes reflected in the market's higher appraisal of the company's rise in assets and earning power. For this reason, experienced investors are not dismayed when their companies decide to limit dividends in favor of investing their funds in new facilities, since they know that such re-investment is quite likely to bring them added returns later on.

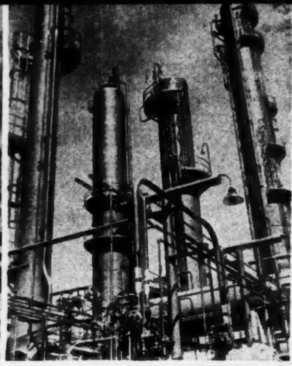
The extent to which re-investment of retained earnings has radically enlarged the earnings base of important corporations may better be appreciated from close study of the accompanying table which shows the net earnings retained after dividends by a number of leading companies. In a more extended analysis, a few facts concerning some of these companies will be of interest.

Thus, net plant value of American Cyanamid increased from $35 to $102 (*Please turn to page* 46)

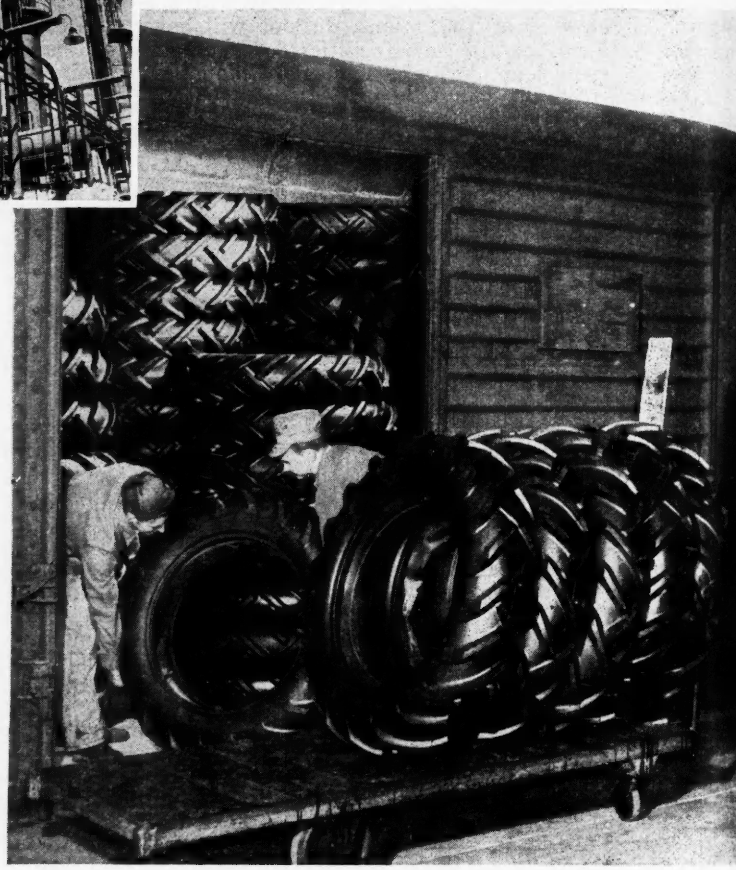
Companies Which Retained a Substantial Percentage of Net Income

	1946		1947		1948		1949		1950	
	Net Earnings Retained After Dividends									
	Amount (Mil.)	% of Net Income	Amount (Mil.)	% of Net Income	Amount (Mil.)	% of Net Income	Amount (Mil.)	% of Net Income	Amount (Mil.)	Income % of Net
Admiral Corporation	$ 1.6	80.7%	$ 2.0	90.3%	$ 2.8	79.1%	$ 7.2	88.2%	$ 16.3	89.4%
Air Reduction	.4	9.7	2.9	52.0	3.7	57.6	3.4	55.9	5.6	65.3
American Cyanamid	3.8	44.9	3.8	43.9	6.0	51.4	8.6	53.4	20.2	60.0
American Viscose	7.0	59.8	11.1	60.5	18.9	65.1	12.7	62.9	21.8	65.9
Bethlehem Steel	17.2	41.4	26.6	52.2	62.3	69.0	69.7	70.3	77.1	62.7
Burlington Mills	7.9	61.4	17.5	73.7	22.5	72.1	11.1	61.5	20.7	74.2
Champion Paper & Fiber	3.5	66.9	4.4	69.0	8.0[1]	48.9[1]	6.1	70.2	7.1	68.2
Corning Glass Works	1.3	46.7	.5	26.9	1.9	54.5	4.1	58.1	12.0	69.9
Dixie Cup	.6	55.8	.9	61.7	1.1	64.2	1.2	65.5	2.1	73.4
Dow Chemical	7.4	58.7	14.6	69.5	16.8	67.5	21.6	63.9	24.7	60.0
General Electric	(d) 3.1	......	49.1	51.7	72.4	58.5	54.6	43.4	76.3	44.0
Goodrich (B. F.) Co.	17.2	70.0	14.6	63.0	14.4	61.1	11.0	55.9	24.3	70.1
Gulf Oil Corp.	35.5	61.1	63.7	66.7	118.3[2]	77.1[2]	66.8	66.3	65.7	60.0
International Bus. Mach.	10.1	54.4	14.9	63.6	18.0	64.3	22.7	68.5	22.2	66.8
Minnesota Mining & Mfg.	7.0	71.6	8.5	73.8	8.7	66.2	8.8	61.6	13.5	67.0
Merck & Co.	3.4	56.9	3.4	56.2	4.6	54.8	3.0	43.7	5.7	51.3
Montgomery Ward & Co.	22.6	53.7	38.1	64.6	47.3	69.3	26.8	56.3	46.7	63.1
National Cash Register	1.3	40.0	7.2	64.2	9.8	70.0	6.1	58.3	12.1	60.2
National Dairy Products	15.1	59.9	11.8	51.3	14.0	55.5	19.3	58.4	14.9	45.7
National Steel Corp.	13.2	64.8	17.9	66.8	28.9	72.2	25.8	65.7	36.8	63.8
Plymouth Oil	1.0	50.7	3.1	77.1	4.6	71.2	3.8	63.6	6.1	72.6
Reynolds Metals	4.5	85.8	11.5	90.0	7.2	80.0	3.8	70.3	10.8	86.6
Schenley Industries	42.8	87.2	19.6	73.3	22.3	75.6	17.0	70.4	29.3	79.9
Standard Oil of N. J.	95.6	53.7	159.2	59.3	309.7	84.1	149.1	55.4	257.1	63.0
Sun Oil	10.8	73.9	19.9	82.2	37.9	88.6	19.8	79.0	30.4	84.1
Thompson Products	.3	21.9	2.8	63.8	2.9	66.2	4.3	72.0	5.7	69.9
U. S. Steel	28.5	33.5	56.1	44.2	52.1	40.2	84.5	51.1	97.5	45.3
Westinghouse Electric	(d) 4.3	......	30.4	62.3	34.2	65.3	46.3	68.8	48.9	62.8
Yale & Towne	.5	52.0	2.0	72.0	1.0	49.2	.7	63.2	1.8	67.1

(d)—Deficit.
[1]—11 months only; change in fiscal year.
[2]—Includes earned portion from long term contract with Mene Grande Oil Co.



Constant emphasis on research, producing a steady stream of n products, assures U. S. Rubber a continuing place of prime leaders in its industry.



Investment Study of

U. S. RUBBER

By GEORGE W. MATHIS

Together with the other big rubber companies, U. S. Rubber has made an exceptionally fine earnings record for the past year with the Korean war providing the sparkplug for this excellent showing. Production, sales and profits have surged upward, showing marked increases over 1949 and the early part of 1950.

During this period, U. S. Rubber has dealt with many difficult problems arising out of the economic dislocations caused by the defense economy and attendant Government controls. That the company should have given such a good account of itself, under the conditions, is a testimonial to the extremely competent management which directs its affairs.

The progress made is not of recent origin, the company for years having developed its research organization to a high state of efficiency and also having vastly increased its physical plant and its effectiveness. By this time, U. S. Rubber has built itself up to a $441 million total asset position by means of ploughing back a substantial portion of annual earnings and by judicious expansion through the purchase of the capital stock of various companies engaged in the manufacture of rubber products. In recent years, such moves have included the acquisition of the assets of the famous Fisk Rubber Corporation and the purchase of the chemical facilities of the Glenn L. Martin Company.

Like the industry of which it is a part, U. S. Rubber derives the bulk of its revenues (about 50 per cent) from the manufacture and sale of tires and tubes, with the balance being derived from diversified lines such as mechanical rubber goods, rubber sundries, rubber footwear and clothing, latex compounds, chemicals and miscellaneous products. The tire division fabricates a complete line of tires and tubes, selling about one-third of this output to the General Motors Corporation, its largest customer. The remainder of USR's tire production is absorbed by the replacement market, with Montgomery Ward & Company acting as the main outlet for this business. Foreign sales are expanding in importance with such business up more than four-fold during the post-war years. Dominion Rubber's sales alone were up 23 per cent in 1950 and U. S. Rubber Export had the third highest sales on record last year. This improvement stems from the aggressive exploitation of the foreign market through the establishment of local manufacturing facilities and the increase in the number of branch offices from 16 to 34.

The company has spent $115 million to expand and modernize plant equipment since the war but current semi-war demands plus civilian requirements are making it necessary to further enlarge productive capacity. Thus the company recently announced that an addition is being made at the Bristol, R. I. plant; that a major expansion of Naugatuck Chemical's Baton Rouge, La., plant for the production of Paracril synthetic rubber is underway, and that nearly $1 million will be spent for the improvement of the Tacony plant.

The present very broad sales line, consisting of over 30,000 items, is constantly being increased in scope by addition of entirely new products. Important among these, is an inner tube strengthened with nylon cord. Last year also saw the introduction of "Naugahyde", a stretchable upholstery material; "Enrup" a high-strength blend of rubber and plastic; a new vinyl resin; a new flame-proof plastic; a rubber timing belt with teeth; an asbestos-glass

fabric and the first commercial use of USR rubber paving compound. This constant emphasis on research on the part of the management, producing a continuing stream of new and better rubber and rubber-based products, assures the company a continuing place of prime leadership within its industry.

In addition to the new entrants to the firm's product line, USR in 1950 sold as many tires as it could turn out with its limited rubber supply and this was accomplished at favorable profit margins. However, the fastest growing item is foam rubber. There has been a marked increase in the use of foam rubber in mattresses and pillows and a rapid adoption of it in the furniture and automotive upholstery field. Demand for USR's "Lastex" and "Laton" yarns has shown a sharp increase while industrial rubber products demand has reflected an expansion in line with the pick-up in industrial tempo. The firm's textile plants operated at capacity last year, particularly because they were the first to feel the demands of military production.

The Problem of Rubber Supply

Needless to say, the question of supply and price of the company's principal raw material, rubber, is of primary importance. About 85 per cent of USR's natural rubber needs are acquired in the world market, while the balance is imported from its own plantations. Surprisingly enough, however, the ownership of rubber plantations does not provide the company with any "cheap" rubber. This is because the local laws require that the company pay the going price to its subsidiaries and that such income of the subsidiaries be taxed according to local custom. USR is then left to "get what it can" from the subsidiaries in the form of dividends. Hence, the company is still subjected to the violent fluctuations in the price of raw material, which characterizes the rubber industry.

For example, at the start of 1950, crude rubber sold at 18¼ cents per pound, but during the year, prices went as high as 90 cents per pound and finally finished the year at 79 cents per pound. This means that until synthetic rubber production is sufficiently large to stabilize the raw material picture, U. S. Rubber will continue to be subject to sharp "ups and downs" in inventory values which tend to distort the profit picture by either abnormal profits or losses. Since there was such a wide swing in rubber prices last year and the company uses the "annual average cost" method of computing the cost of goods sold, it is reasonable to believe that the influence of the previous year's low-cost inventories combined with the higher prices subsequently in force for finished rubber products, have given rise to substantial inventory profits in 1950.

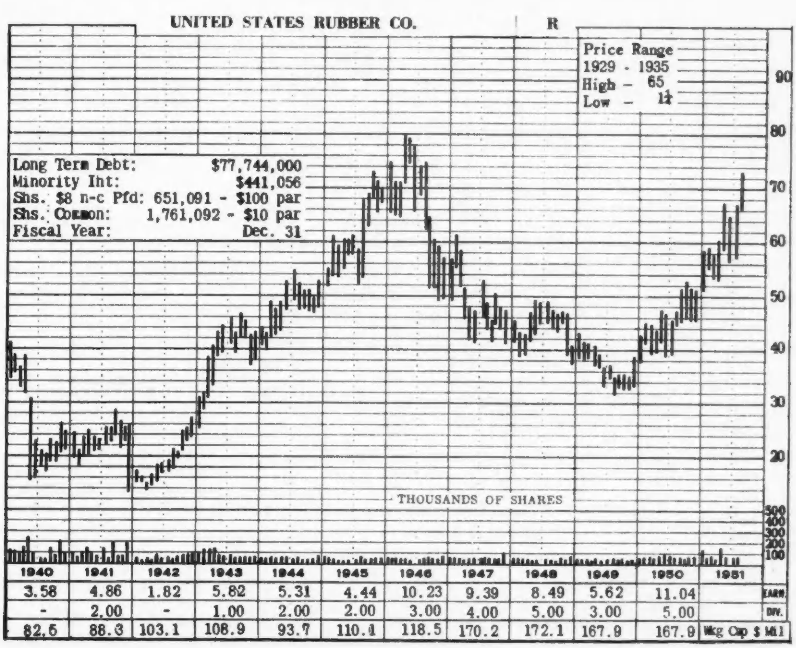
In order to stabilize the highly volatile market for natural rubber, the Government stepped into

Comparative Balance Sheet Items

	Dec. 31 1941	June 30 1951	Change
	(000 omitted)		
ASSETS			
Cash & Marketable Securities	$ 38,965	$ 67,717	+$ 28,752
Receivables, Net	39,184	106,180	+ 66,996
Inventories	76,666	164,065	+ 87,399
TOTAL CURRENT ASSETS	154,815	337,962	+ 183,147
Net Property	66,953	95,875	+ 28,922
Investments	1,781	4,069	+ 2,288
Other Assets	1,155	3,829	+ 2,674
TOTAL ASSETS	$224,704	$441,735	+$217,031
LIABILITIES			
TOTAL CURRENT LIABILITIES	$ 66,464	$162,441	+$ 95,977
Other Liabilities	419	1,479	+ 1,060
Reserves	7,727	10,615	+ 2,888
Long Term Debt	37,947	77,744	+ 39,797
Preferred Stock	65,109	65,109	......
Common Stock	17,390	17,611	+ 221
Surplus	29,648	106,736	+ 77,081
TOTAL LIABILITIES	$224,704	$441,735	+$217,031
WORKING CAPITAL	$ 88,351	$175,521	+$ 87,170
CURRENT RATIO	2.3	2.1	— .2

the rubber picture as sole U. S. buying agent, a move that has helped to put an end to last year's wild price gyrations. However, activation of increasingly greater synthetic rubber capacity will work even more towards stabilization of the raw materials price situation.

U. S. Rubber was the first rubber company to bring back into production a Government stand-by synthetic rubber plant last year. It is further enlarging synthetic rubber production by having taken over the operation of the Paracril synthetic rubber



plant which it purchased from Esso Standard Oil Company last December. As another step in the direction of more rubber synthetics, the firm has just announced that it has perfected a new "cold" rubber process for the manufacture of latex rubber. This new product is said to be the first one to approach the natural rubber latex in service and wearing quality.

Inasmuch as the industry imported 800,000 tons of natural rubber and produced 500,000 tons of synthetic rubber in 1950, and since this year has been marked by a substantial increase in synthetic rubber capacity, it appears that the industry's raw material price structure is now well on the way towards stabilization.

Earnings Fluctuations

United States Rubber's earnings, like the price of crude rubber, has fluctuated widely over a period of years. In 1941 the company earned $4.86 per share. The first full year of World War II trimmed earnings down to $1.82 per share (in 1942) but for the balance of the war years, per share profits averaged around $5.00. Then in 1946, the first year which approached a near-normal civilian economy, the backlog of demand boosted earnings to $10.23 per share. Earnings then progessively declined to a postwar low of $5.62 in 1949 but the Korean crisis abruptly reversed this trend and net jumped to an all-time high of $11.04 per share in 1950. This sharp earnings gain was continued through the half-year ended June 30, 1951 and came to $7.85 per share. While second half profits will not be quite so high, it appears fairly certain that 1950 will be topped, though not by a wide margin.

Over the 1941-1950 span, sales showed an increase of about 121 per cent in a steady upward trend. On the other hand, the operating profit margin, high during World War II years, tended downward in postwar until reversed in 1950. The operating profit had been as high as 13.9 cents out of each sales dollar in 1943 but by 1949 it had reached a low point of 5.1 cents. This declining trend reflected the rise in operating costs and the effects of intensified competition on sales prices during the post-war years.

The first half of this year reveals a record operating profit of 14.2 cents per sales dollar compared with 8.3 cents in 1950. Costs related to sales have shown a constant tendency to increase, the percentage ratio going from the high 70s to 83 per cent of sales in 1949 and 81½ per cent last year. The lower 1950 figure may be temporary, since the company's low cost rubber inventories may have tended to offset in part the rise in natural rubber prices which was experienced during 1950. It can be anticipated that this ratio will be larger for the current full year.

Since the last decade includes one full-scale war and a period of mobilization, the tax impact has been both erratic and heavy. Examination of the appended tabulation will indicate that during the three-yer period of 1941 to 1943, taxes jumped 136 per cent. From this high point they tapered off 82 per cent to 1949's low of $7.9 million. Then the Korean conflict sparked another upsurge. Due to rising sales and higher tax rates, the tax bill in 1950 soared 293 per cent to $31.1 million and the tax provision for 1951's first half stands at $42.5 million. There is a possibility that some of the current tax year's provision may be recaptured as earnings but this depends upon the provisions of the current tax bill in Congress.

Impact of Higher Taxes

Last year, USR accrued about 55 per cent of earnings before taxes in order to pay the tax levy of that year. This year the firm has accrued taxes at the top ceiling rate of 72 per cent since the beginning of the year. The actual tax impact depends on the final version of the tax bill, both as to effective date and top ceiling rate.

A good idea of the huge increase in business and profits for the company may be gotten from the fact that pre-tax profits for the current year's first half amount to $59 million while the net income before taxes for the entire year 1950 came to $56.8 million. Roughly speaking, before the impact of taxes the company was doing twice as well this year compared to 1950. While a good portion of the improvement must naturally be credited to the higher sales, there is no doubt that operating efficiency has been improving. Working capital (*Please turn to page* 45)

Long Term Operating and Earnings Record

	Net Sales (Millions)	Operating Income (Millions)	Operating Margin	Taxes (Millions)	Net Income (Millions)	Net Profit Margin	Net Per Share	Div. Per Share	Percent Earned on Invested Capital	Price Range 1941-50
1951 (First Half)	$427.7	$ 60.0[2]	14.2%[3]	$ 42.5	$ 16.4	3.8%	$ 7.85	$ 4.00[4]	......	73¼-51[1]
1950	696.5	58.1	8.3	31.1	24.6	3.5	11.04	5.00	13.6%	52⅝-37½
1949	518.1	26.7	5.1	7.9	15.1	2.9	5.62	3.00	8.9	43 -31¾
1948	573.0	38.5	6.7	14.7	20.1	3.5	8.48	5.00	12.3	49⅝-37⅞
1947	581.9	36.8	6.3	13.7	21.7	3.7	9.39	4.00	14.1	60½-40¼
1946	496.1	34.1	6.8	14.6	23.2	4.6	10.23	3.00	15.9	80 -48¼
1945	477.5	58.0	12.1	20.4	13.0	2.7	4.44	2.00	9.7	73½-51½
1944	450.7	52.9	11.7	36.1	15.8	3.5	6.04	2.00	12.2	54¾-40
1943	434.2	60.4	13.9	44.4	14.1	3.2	5.09	1.00	11.5	46¼-25¼
1942	294.0	36.4	12.3	11.5	8.3	2.8	1.82	......	7.2	27¼-13⅝
1941	315.3	34.7	11.0	18.8	13.6	4.3	4.86	2.00	12.1	28½-13½
10 Year Average 1941-50	$483.7	$ 43.6	9.4%	$ 21.3	$ 16.9	3.4%	$ 6.70	$ 2.70	11.7%	80 -13½

1—To September 20, 1951.
2—Pre-tax income.
3—Pre-tax margin
4—Payable to Sept. 10, 1951.

TEXTILES

Out of the Dumps?

By STANLEY DEVLIN

Only in the textile industry, supplying one of our basic wants, is it possible to find so widely divergent trends within a single field of manufacturing. Because textile products serve such manifold purposes, some phases of operations almost always are doing reasonably well while others are depressed. Curiously enough, despite vast changes in the character of the business, the investment public retains its cautious attitude toward textile securities. Although shares of synthetic fibre manufacturers have gained increasing popularity in recent years, they have not been immune to periodic scares of a recession.

Reflecting a pronounced lull in consumer interest, most textile stocks have been viewed with suspicion for the last six months or more. Justification for this position may be found in the outlook for reduced earnings. It would be rash to assume, however, that the slackening in operations represents anything more than a temporary readjustment. Because apparel and other textile products are so essential to the average individual's welfare, the threat of emergencies that may restrict normal requirements sends consumers into retail outlets to stock up on household needs. This is what happened a year ago following the Korean incident, and the consequent rush to accumulate reserve supplies set in motion a boom experienced in all departments of textiles.

The sharp decline in orders late last winter and early spring, coincident with talk of a cease-fire in Korea, found converters, jobbers, retailers and consumers well stocked with textiles of all kinds, especially cotton goods. A few months later, production of synthetic fibres began to exceed manufacturing requirements to such an extent that cutbacks became necessary. Thus textile production, as measured in the Federal Reserve Board industrial index, dipped in the June quarter to 188 from 192 in the first three months and 195 in the final three months of 1950. Operations in the third quarter of this year have been reduced substantially from the preceding periods, and the index may have fallen back more closely to the 177 level which characterized production for the first quarter of 1950.

In appraising the outlook for securities in this group, sight must not be lost of the fundamental changes that have taken place in the last decade which add a measure of stability to this segment of industry. In the first place, it is important that the population is growing at a tremendous rate, and this means that in the next decade or two, consumption of textile products is likely to reflect rapidly expanding consumer markets. Moreover, national income is more than keeping pace. Technological progress is remarkably aggressive with the result that new fibres are constantly being developed to make more attractive fabrics at lower cost. Manufacturing operations are being enlarged and mechanized so effectively that textile items probably have advanced less in the last decade than almost any other major factor in the cost of living. Accordingly, markets for textiles show promise of steady growth and per capita consumption is more likely to expand than to diminish.

Cut-throat Competition Ended

Manufacturing operations have moved into stronger hands as the competitive pace has quickened. Pressure from labor organizations in the South has lifted wage rates more nearly in line with the Northeast, as a result of which disturbing cut-throat competition from low-cost mills has become negligible. This is not to imply that price-cutting is lacking, but the quantity of low-cost materials is not sufficient to influence the

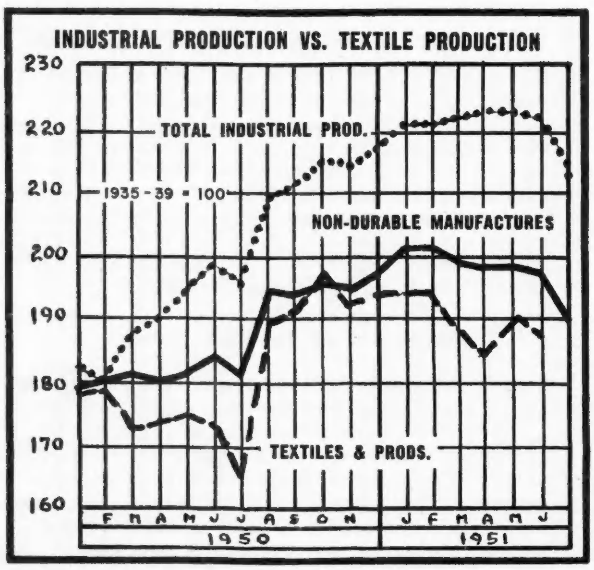
broad picture as much as a generation ago. Well managed concerns prefer to close down production rather than to keep mills operating for any considerable period at a loss.

Another important factor that needs to be taken into account is the effect of price support programs that prevent raw materials, especially cotton, from declining below established minimums. Thus manufacturers are prevented from looking forward to the possibility of drastically lower costs of raw materials in times of declining business. With major raw materials supported by Government purchases, manufacturers cannot reduce their prices below comparable minimums without foregoing profits and absorbing losses. This is a stabilizing influence that also tends to restrict competition from irresponsible mills.

Growing use of synthetics also tends toward price stability, for most of the common fibres and fabrics derived from chemical processes are produced by large companies whose price policies are designed to encourage wider uses but also to provide adequate profit margins. Accordingly, price fluctuations in rayon yarn, in nylon and in other similar materials usually are comparatively small and infrequent. Users of these products, therefore, are in position to formulate price policies on the assumption that their raw materials are unlikely to show any serious variations. All in all, development of factors contributing to stability has imparted a measure of strength to the textile industry that is not generally appreciated.

Mechanization Counteracts Rising Wages

Other stabilizing influences that promise to contribute to narrower fluctuations in earning power include the trend toward concentration of facilities in fewer and stronger hands. A high degree of mechanization is essential to counteract rising wage costs, so that small mills generally have been unable to keep pace with their stronger competitors. Moreover, prohibitive construction costs virtually bar development of new manufacturing facilities except in conjunction with production already in operation. Thus securities representing the well established, integrated companies probably deserve to rank as better grade than the average textile stock of a generation ago.



In appraising the outlook for textile shares, probably the most common misconception of the industry is the seeming conviction that man-made fibres doom natural products. Many persons unfamiliar with statistics have the feeling that consumption of cotton particularly has been seriously curtailed by the introduction of rayon. Although it is true that rayon, nylon and other synthetics have displaced cotton in many fabrics, nevertheless it is interesting to observe, for example, that per capita consumption of cotton last year approximated 31.3 pounds compared with 30 pounds ten years earlier. Moreover, cotton consumption is running well ahead of pre-war levels and is more than 50 per cent greater than a quarter of a century ago. This reassuring trend has been accomplished in spite of the fact that rayon has captured approximately 20 per cent of total textile fibre consumption, as compared with less than 10 per cent in 1940 and only 1.6 per cent in 1925.

Great Progress in Rayon

Rayon has made impressive strides in the last year or two—such progress, in fact, that its position has become increasingly important as a competitor of wool. Rayon first caught the fancy of men's wear manufacturers as a desirable material for summer suits. In the last two years, the public has accepted rayon or rayon-mixed suitings in a manner that suggests that a broad new market has been opened. Men apparently would prefer to have three or four lightweight rayon summer suits, affording a variation in apparel, than one or two more costly lightweight worsteds.

In the carpet industry, too, a large potential market has been opened. The sharp advance in carpet wool soon after the outbreak of hostilities in Korea drove carpet weavers into substitute materials, for they found that continued use of wool raised their costs to prohibitive levels. Rayon has proved such a satisfactory substitute that the position of wool now is threatened.

Such improvement has been accomplished in perfecting rayon fibres that the carpet industry has found that as a replacement for wool, synthetic materials are quite acceptable. Carpets made entirely of rayon or in mixtures of varying combinations have been demonstrated to give utmost satisfaction. Hence, the industry has turned to rayon as a permanent source of materials regardless of the price of wool. It may be noted, for example, that Bigelow-Sanford Carpet acquired a controlling interest in Hartford Rayon, and Mohawk Carpet Mills recently completed a similar arrangement for the slightly larger Delaware Rayon Co., and New Bedford Rayon Co.

Turning back to the current position of textile companies, it is difficult to discuss the outlook in generalizations because of such widely divergent trends among different groups and even among several companies in the same field. It is generally believed, however, that in almost all directions prices have developed a steadier undertone and that inventories are gradually being reduced. Production is not likely to expand importantly over the near term. In fact, operations for the remainder of this year promise to be considerably below the rate prevailing in the fourth quarter of 1950.

The extent to which inventories were accumulated

in early months this year is shown by trade statistics disclosing products held by mills at the end of May had risen to $3,381 million, or an increase of about 57 per cent over the total prevailing a year earlier just prior to the Korean war, when inventories were about normal at $2,148 million. Even though wholesalers and retailers were actively reducing stocks through the second quarter, it is estimated that goods in the hands of distributors probably averaged 30 to 35 per cent more than at mid-1950. Not a great deal of progress has been made in the third quarter in reducing inventories even though production has been cut back sharply, because the summer is a dull period as a rule for disposing of slow merchandise.

With purchasing power continuing to expand, however, prospects are regarded as promising for a seasonal pick-up in coming months. Trade authorities are hopeful that demand and supply may be restored virtually to normal by the end of the holidays. In any event, the manufacturing end of the business is not expected to feel any important impetus before 1952. This means that for most companies the fairly satisfactory first half is likely to be counterbalanced by unfavorable results in the second six months. Generally, earnings in cotton goods lines should be lower this year than in 1950.

High taxes and the stimulating effect on the economy of rearmament have complicated economic factors normally applied in appraising stocks, and because raw material prices play such an important part in cotton goods, the investor has had to contend with the threat of wide swings in earnings. Adoption of "last-in-first-out" inventory evaluations also has complicated matters. Thus at present, some divisions of the textile industry are experiencing adverse effects of the "lifo" squeeze. This trend is especially evident among carpet manufacturers using large quantities of wool, which rose from less than $1.60 a pound early last year to $3.75 a pound in the first quarter this year.

Processors now basing their costs on wool purchased at around the peak of $3.50 to $3.75 a pound naturally are showing unprofitable operations because selling prices have had to be reduced to meet consumer resistance and to take into account current lower wool prices. It is curious, therefore, to observe that from an operating standpoint results may be satisfactory, but because costs are tied to prices prevailing several months ago, results as reported are likely to be the poorest in many years.

Sharp Gain in Net Income

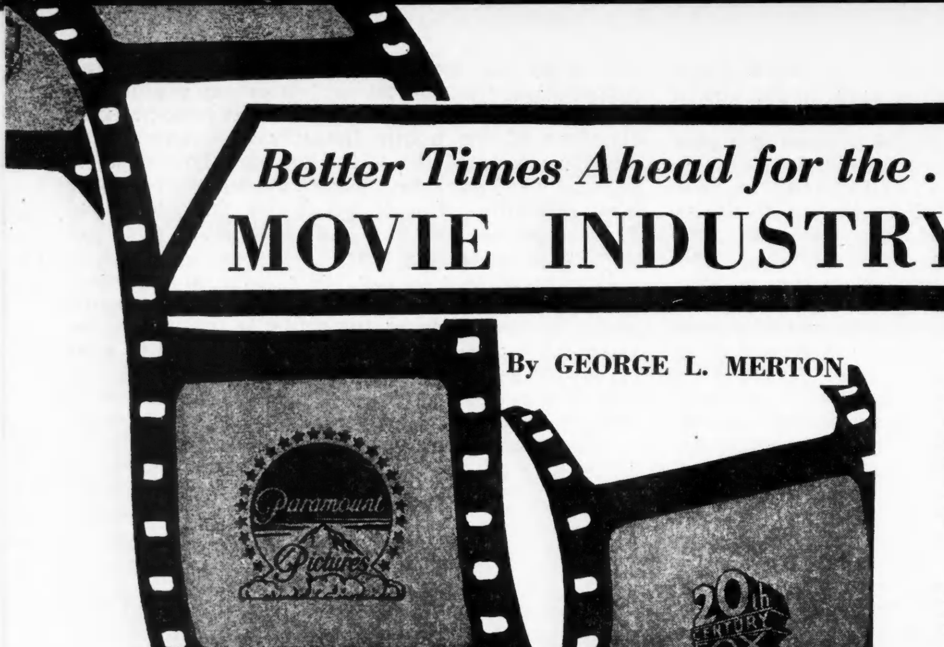
The impressive factor about the textile group to be noted in pondering statistics of individual companies is the expansion is net income. Almost without exception, earnings in dollars have risen remarkably—partly, of course, in reflecting the inflation of everything having to do with industry. For every dollar of net income for 1938 or 1939, almost any company of importance showed net profit for 1950 of $8 to $10, while in some instances gains were even more pronounced. (*Please turn to page* 49)

Statistical Data on Leading Textile Companies

	First Half 1951			1950							
	Net Sales (Millions)	Net Margin	Net Per Share	Net Sales (Millions)	Net Margin	Net Per Share	Recent Price	Div. 1950	Div. Yield	Price Earnings Ratio†	Price Range 1950-51
American Viscose	$147.4	8.5%	$ 7.83	$267.4	12.4%	$ 7.83	75	$ 2.50[11]	3.3%	9.5	78 -32¼
American Woolen	98.8	7.5	7.11	150.1	3.5	4.39	37¼	4.00[11]	10.7	8.4	46⅞-21⅞
Blumenthal (Sidney)	16.1	5.4	2.44	21.8	5.0	3.00	13	1.00[11]	7.6	4.3	14½- 7¼
Burlington Mills	240.8[2]	4.5	1.59[2]	286.9[1]	9.7	4.36[1]	20⅝	1.36[11]	6.7	4.6	25⅝-11½
Cannon Mills	96.0	......	......	174.9	4.1	3.48	52	3.00	5.7	14.9	61 -43½
Celanese Corp.	125.0	13.2	2.50	232.4	17.3	6.39	54⅛	3.00[11]	5.5	8.4	58¼-29⅝
Goodall-Sanford	62.5[5]	3.8	4.02[5]	41.4[3]	1.6	.50[3]	18¾	......	....	37.5	24¾-13½
Industrial Rayon	....	......	2.68	65.0	18.1	6.68	61¾	3.00	4.8	9.2	71½-42½
Lowenstein & Sons	115.3	2.8	2.47	131.0	6.6	6.50	29⅞	2.37[12]	7.9	4.5	39 -18
Pacific Mills	68.1	.7	.54	128.5	4.7	6.39	39	2.50[12]	6.4	6.1	49½-28⅝
Pepperell Mfg.	87.5[5]	6.5	11.36[5]	66.6[3]	6.6	9.10[3]	73½	5.00	6.8	8.1	77½-53⅞
Rayonier	41.8	15.4	5.86	66.3	18.6	11.16	60	3.00[11]	5.0	5.4	63½-45⅛
Reeves Bros.	46.5[6]	5.8	2.38[6]	48.3[3]	5.7	2.45[3]	17⅛	1.30	7.6	7.0	21¾-12¾
Robbins Mills	18.9[7]	10.6	2.42[7]	43.1[4]	13.6	7.03[4]	35¼	1.50	4.2	5.0	42 -19⅛
Stevens (J. P.)	247.4[9]	6.2	4.16[9]	294.8[8]	8.0	6.78[8]	43	3.00	7.0	6.3	49⅜-30⅜
Textron	49.1	8.0	3.13	87.5	3.5	2.38	18⅞	2.00	10.6	7.9	23½-10
United Merch. & Mfg.	199.8[6]	6.6	3.10[6]	214.9[3]	5.0	2.52[3]	15¾	1.00	6.4	6.2	18⅜-13¾
Wyandotte Worsted	10.8[10]	4.5	.77[10]	18.5[4]	5.2	1.61[4]	14⅜	.80	5.5	8.9	21⅜-10⅞

†—Based on 1950 earnings.
1—Year ended Sept. 30, 1950.
2—9 months ended June 30, 1951.
3—Year ended June 30, 1950.
4—Year ended Nov. 30, 1950.
5—Year ended June 30, 1951.
6—9 months ended March 31, 1951.
7—26 weeks ended June 2, 1951.
8—Year ended Oct. 31, 1950.
9—9 months ended July 28, 1951.
10—6 months ended May 31, 1951.
11—1951 rate.
12—1950 rate plus stock.

Better Times Ahead for the . . .
MOVIE INDUSTRY



By GEORGE L. MERTON

The movie business, which is a sick business, has commenced to show a few signs of convalescence. Whether this betterment is due to the herculanean and drastic efforts on the part of the industry to regain a state of health, or whether it is due to the industry's latent vitality finally beginning to assert itself, is too early to tell. At any rate, Hollywood is trying to cast off the gloom of the past few years and to assume a more cheerful demeanor. It is even about to embark on a nation-wide sales effort called "Movie-time U.S.A." which, it is hoped, will stimulate grass-roots interest in the movies.

Theatre operators throughout the country are reporting that business since the middle of summer has picked up 15 to 20%. The improvement comes just in time. Five years ago, over 80 million tickets were sold weekly at the box-offices. By 1949, sales had slumped to 62 million and last year they dropped to 54 million. Any further decline would surely put the industry in the red. As a matter of fact, the rate of mortality among movie theatres has been very high, many hundreds of them having closed their doors in the past two years.

There are essentially two reasons for the current improvement. One is the public support of the recent flock of "hits" such as "Show Boat", "The Great Caruso", "David and Bathsheba", and "A Place in the Sun". The other is that the normal let-down in summer television shows has turned the public back to the movies. The next month or two will tell whether owners of television sets will stay away from the movies again, when the big video shows come on again.

In the meantime, there is no doubt that the producers have found excellent money-makers in the so-called big shows, that is productions that are outstanding for performance, such as the few mentioned above. In fact, practically all the leading producers are going back to high-quality pictures as a prime source of revenue. Hollywood is very imitative and when it sees that profits are going to the companies making high-grade pictures instead of the shabby stuff turned out in the past few years (with disastrous results), they are quick to follow the trend.

One of the clearest indications of this trend away from "cheap" productions is the price some of the studios are now willing to pay for best-sellers. Reversing the economy drive of 1947-1950, prices up to $75,000 are being paid for rights to best-selling novels. For example, Twentieth Century-Fox paid $75,000 for "The President's Lady" and $80,000 for Daphne du Maurier's "My Cousin Rachel". Based on its experience in the past few years, the industry has found that the only dependable source of profit are either high-quality pictures or "little" pictures. The medium-grade affairs on which the industry foolishly built its hopes in the past few years are recognized as a losing proposition. The new life given the movies by the current flock of "hits" merely proves the point.

Television, of course, is causing a revolution in the thinking of the movie executives. Up to this point, there are no reliable data as to the exact effect of television on movie attendance but a good part of the drop in movie-going in recent years can safely be ascribed to this new competition. Were it not for the fact that new telecasting stations have been frozen by Government order, it is probable that television would make further inroads on movie attendance, especially now that color television is becoming feasible.

Possibilities in Theatre TV

However, the "freeze" gives the movie industry a breathing spell, of which it is trying to take advantage. In this connection, theatre telecasting is now becoming a weapon of defense. While it is still limited to a small number of houses, since not many are equipped to show large screen television, there is no doubt that wide public interest has been attracted. Important sporting events when televised in theatres are not available to home viewers, and enthusiasts, rather than forego the spectacles, flock to these performances, even at high prices.

Also some movie producers and televisers have combined to develop systems whereby home viewers can see better TV shows on a pay-as-you-see basis.

R. C. A. for example is offering credit to movie theatres to finance installation of new equipment for modernization. Zenith has developed "Phonevision" whereby set owners would pay a fixed fee to see first-run movies on home screens. Paramount owns Telemeter, a mechanically operated coin device which will permit transmitting stations to charge a fee for programs. These are merely several of the latest steps taken by the movie industry to compete directly with television. Legal problems in abundance have been created but the fundamental trend is, sooner or later, for some sort of amalgamation between the interests of the movie industry and television.

Pending more conclusive evidence to the contrary, it would seem that the current increase in movie attendance is of a seasonal or special character. Fundamental economic factors now affecting spending habits of consumers are still likely to limit the ability of the great mass of wage-earners to purchase any but the most essential items of living. Reserve spending power is not large and while it will be increased as more workers are drawn into the defense plants, it is not likely that a great splurge of buying will take place in consumers' items. This means that the movie industry, while benefiting from increased attendance, cannot expect attendance on the scale of the war years, so that the very high rate of profit enjoyed in those years is not likely to be duplicated in the foreseeable future.

Foreign business, on which the industry depends heavily for its net profits, is in an improving position, especially now that some of its problems attendant on foreign currency transfers into dollars are being alleviated, at least in part. As an illustration of how important foreign business is to the movie industry may be cited the fact that in the past three years of depression 90% of the producers did not cover their costs of production from domestic business and had to rely on their foreign sales for whatever profits they could find.

Approximately 35% of the industry's profits come from rentals to foreign exhibitors but unless these profits can be returned in the form of dollars, insufficient benefit accrues to the producers. At the moment, Hollywood has about $100 million coming to it from abroad. Based on agreements recently made with Britain and Italy, an increasing percentage of this sum will be paid in dollars, but the industry still feels that it is being handicapped by exchange restrictions.

The earnings outlook for the year, despite current improvement, is by no means clear. Even a boost in profits over the next few months comes too late to offset the poor showing of the first six months, so that full year earnings will fall even below the disappointing results of 1950. Practically all the producers are barely earning their dividend rates and the slim margin naturally casts doubt on the ability in some cases to continue payments at the present level unless there is a definite pick-up in attendance and profits.

Better Market Action in Movie Stocks

This situation tends to give movie shares an even more speculative cast than is normally true. Offsetting this unsatisfactory condition to some extent is the strong financial position of most companies. Furthermore, inaugurated by Paramount, there is a trend to reduce outstanding stock by outright purchase which tends to improve the per share earnings basis of the remaining stock.

While the conditions described above are not conducive to great optimism, a practical view shows that motion picture shares have been fairly thoroughly liquidated and seem to have more or less discounted the relatively poor earnings situation. That they are ready to reflect any substantial and prolonged improvement is shown by the manner in which they responded recently to the improved box-office receipts of late summer and early autumn. Purchase of the shares, however, should be on the understanding that they are quite speculative and only suitable for those prepared to take risks.

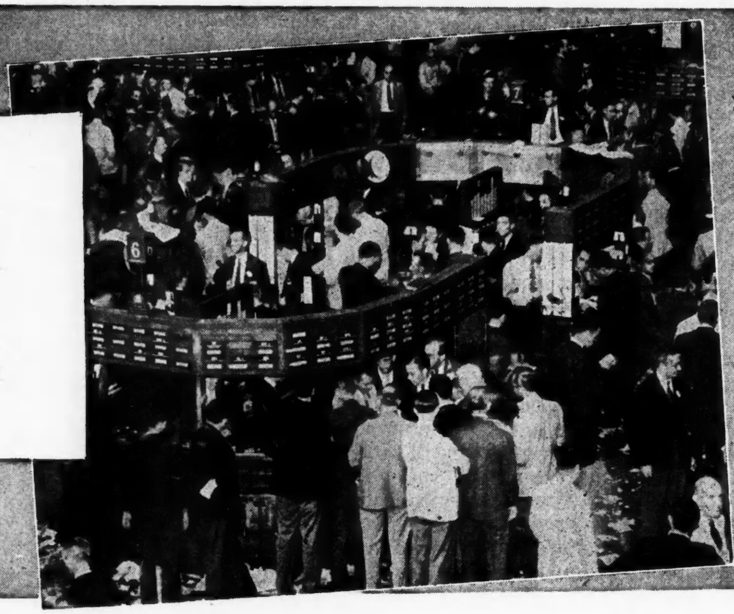
An analysis of the position of three of the leading producers is given herewith. Incidentally, it is worth noting that all three, in addition to some of the other producers, have large film libraries completely written off. While this could turn into a dollar assets of some dimensions in the event the television companies broadened their use of old films, it should not be exaggerated. Another point of interest lies in the projected divorcement of the production and exhibition divisions of remaining integrated companies, which, in a favor- (*Please turn to page* 47)

Statistical Data on Leading Motion Picture Companies

	First Half 1951			1950							
	Net Sales (Millions)	Net Margin	Net Per Share	Net Sales (Millions)	Net Margin	Net Per Share	Recent Price	Div. 1950	Div. Yield	Price Earnings Ratio†	Price Range 1950-51
Columbia Pictures	$ 26.3[3]	3.6%	$ 1.15[3]	$ 57.2[1]	3.3%	$ 2.58[1]	14⅜	$ .75[8]	5.2%	5.5	14⅞-10⅝
Loew's, Inc.	132.8[4]	4.2	1.08[4]	178.0[2]	4.4	1.53[2]	17¾	1.50	8.5	11.6	19½-14½
Paramount Pictures Corp.	44.7	6.3	1.23	81.8	8.0	2.67	[illegible]0⅛	2.00	6.4	11.3	33½-17½
RKO Pictures	24.0	3.0	(d) .19	46.5	(d)12.5	(d)1.49	4¼	.....	....	.....	4½- 2½
RKO Theatres	16.4	3.3	.14	37.3	3.2	.31	4½	.....	....	14.5	5¼- 3
Republic Pictures	16.3[6]	2.6	.12[6]	30.3[5]	2.5	.20[5]	5	.....	....	25.0	5⅜- 3
Technicolor	.....	....	1.24	23.4	9.4	2.40	21⅝	2.00	9.2	9.0	26¾-16¼
Twentieth Century-Fox	77.4	1.4	.30	165.0	5.7	3.26	20¾	2.00	9.7	6.3	25½-17½
United Paramount Theatres	57.3	8.9	1.49	97.1	12.5	3.72	22	2.00	9.1	5.9	24 -15⅛
Universal Pictures	.....	....	.50[6]	55.5[5]	2.4	1.14[5]	12½	.....	....	10.9	12½- 7⅛
Warner Bros.	84.8[9]	6.8	.87[9]	132.3[2]	7.7	1.47[2]	14½	1.00	6.9	9.8	16¼-11

(d) Deficit.
† Based on 1950 earnings.
[1] Year ended June 30, 1950.
[2] Year ended August 31, 1950.
[3] 9 months ended March 31, 1951.
[4] 40 weeks ended June 7, 1951.
[5] Year ended October 28, 1950.
[6] 26 weeks ended April 28, 1951.
[7] 9 months ended May 26, 1951.
[8] No dividend thus far in 1951.

FOR PROFIT AND INCOME



October

As regards what the market might do in October, "you pays your money" and makes your own guess; or you can wait and see. The back record will give you no clue. In 40 years back to 1911, the industrial average had more or less net gain in October in 13 years, net decline worth mentioning in 13 years and was nominally changed in 13 years. If you detect one year missing in this reckoning, it was 1914 in which the Stock Exchange was closed, by the war, in October. Mainly because declines tend on average to be sharper and more concentrated than advances, the most dynamic market changes in October have been on the downside, as in 1929, 1930 and 1937. It has not brought anything at all sensational on the upside even in the most speculative periods of the 1920's, or in the 1932-1937 rise, or in the 1942-1946 rise or in rising markets in more recent years. It is not likely to do so in the present instance, for a corrective pause or retreat seems due, if not over-due, as this is written.

Mixed

Not even the broadest indexes of prices—much less the Dow industrial average — can more than partially tell the story of what is going on in this market. It remains highly mixed, with continuing shifts in selective emphasis providing rotating group leadership. Less money is now going into groups which had previous exceptionally large advances, and at least a moderate amount of money is moving out of them via profit-taking and switching operations. That has recently been so of chemicals, oils, ethical drugs and paper. It ought to be so, at almost any time now, of rayon and tire stocks, which are in very advanced ground, but which again recorded new highs within the week prior to this writing. Among the sharpest recent gains have been those in non-ferrous metal mining and smelting stocks. Other new highs for the year, or longer, have been recorded by aircraft, building materials, bituminous coal, electrical equipment, fertilizer, dairy products, machinery, radio-television stocks, department stores and movies. On the whole, for obvious reasons, capital goods stocks have fared considerably better so far in 1951 than consumer goods stocks. Yet, in the capital goods class, the steel group has been disappointing so far, and railroad equipments even more so.

Down

Some previous high-flying stocks which made their most recent highs two to three weeks prior to this writing, and which backed away materially from them while other leaders came to the fore, include Merck, Monsanto Chemical, National Lead, Phillips Petroleum, Rayonier, Celanese, Standard Oil (New Jersey), Union Carbide, Gulf Oil, Dow Chemical, and American Cyanamid.

Biting

In a recent session Paramount Pictures which long "played dead" in the market in the low 20's, spurted 6 points to above 33 on news that it controls and will exploit a new TV color tube; Mullins Mfg. rose 3⅛ points on news that this company had developed a method for cold extrusion of steel;

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1951	1950
Chain Belt Co.	9 mos. July 31	$3.65	$2.73
Archer-Daniels-Midland Co.	Year June 30	6.58	5.71
St. Louis-San Francisco Ry.	7 mos. July 31	1.42	1.04
Western Air Lines, Inc.	6 mos. June 30	1.16	.36
Cerro de Pasco Corp.	6 mos. June 30	5.13	.80
American Smelt. & Ref.	6 mos. June 30	7.07	4.20
Marathon Corp.	9 mos. July 31	4.74	3.31
Oliver Corp.	9 mos. July 31	6.13	4.00
Northern Pacific Rwy.	7 mos. July 31	2.41	.19
Miami Copper	6 mos. June 30	2.10	.23

and Nickel Plate jumped 4 points on news that the ICC had approved its proposed 5-for-1 split of the common stock. Stocks can respond to that kind of news that way only when speculators are in a mood to jump at any bait which looks exciting. It is pure guesswork what Paramount might earn from its TV tube if anything; no layman can evaluate the possibilities in Mullins' new steel-handling process; and the Nickel Plate stock split cannot change the road's earning power one way or the other. Much more often than not, it does not pay to "follow the crowd" on sudden price spurts like these. You might better concentrate on analytical values which appear reasonably priced and are not too speculative in character.

Narrowing

Total corporate dividend payments in July were $524 million, according to Department of Commerce estimate, against $520 million in July, 1950. Thus, the year-to-year gain was nominal. Tending to hold dividends down are generally lower earnings under higher taxes; and corporate need to retain cash to finance either expansion or enlarged inventories and receivables or both. Year-to-year dividend comparisons will be less favorable in the second half than in the first; and the fourth-quarter total will probably be materially under that in the 1950 final quarter. If the change does not have any adverse general effect on the stock market, that will be something new; and if it is not anticipated to some extent before it develops, that will also be something new, since numbers of "insiders" can see it coming in their own companies.

GE vs. WX

At 60½ at this writing, General Electric is priced 20½ points above Westinghouse Electric at 40. The spread has been wider than that at the 1929 bull-market highs, when it was 27⅝ points and at the 1937 bull-market high, when it was 23 points. In the five years 1946-1950 it averaged about 9½ points, at the highs. GE is priced at about 12.7 times probable 1951 earnings; WX at about 10.5 times. The former is priced at 13.5 times average earnings of 1947-1950; the latter at 9 times. GE is priced at 2.26 times book value per share shown by the latest available balance sheet; WX at 1.61 times. With GE on a regular $3 dividend basis and WX on a regular $2 rate, their current yields are about the same at approximately 5%. The balance sheets showed net working capital of $455.9 million for WX, against $321.6 million for GE, the difference in favor of WX being due to smaller current liabilities. Last year GE did roughly 90% more business that WX in dollar sales; had nearly 123% more income; and earned about 10% more per common share. The comparisons suggest that WX is at least moderately underpriced relative to GE. The spread between them probably will be narrowed, given a significant further general market rise and a continuation of the spread of demand to secondary stocks. But it could also be narrowed by General Electric declining more than Westinghouse in a market correction, for it is probably the more vulnerable of the two in present technical position. As to which it will be, this volumn would not venture much of a bet.

Utilities

Assuming adoption of either the House tax bill or the version of the Senate Finance Committee, electric utility companies will be affected less adversely than was feared earlier. They are generally immune to EPT, and the 5-point boost in the combined normal and surtax will be substantially offset by savings resulting, on a future full-year basis, from repeal of the Federal 3⅓% excise tax on sales to residential and commercial users. It appears that dividends of all better-known companies will be covered this year, although by a reduced margin with very few exceptions; and that coverage will be wider in 1952 as a result of full-year benefit from the excise-tax repeal (probably to be effective only for the last two months of 1951), and of further gains in gross revenue. Utility stocks with relatively wide dividend coverage include American Gas & Electric, Cleveland Electric, Florida Power, General Public Utilities, Houston Lighting, Idaho Power, Indianapolis Power, Montana Power, Pennsylvania Power, Philadelphia Electric and West Penn Electric.

Columbia Gas

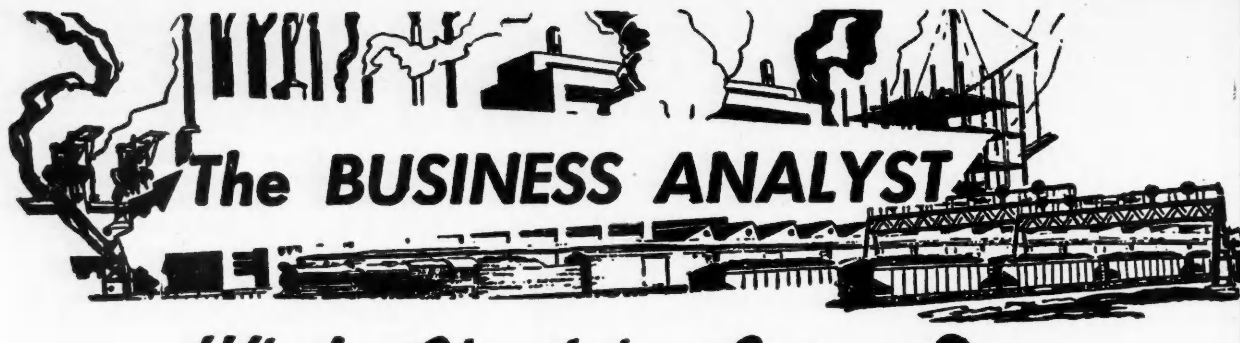
Despite higher taxes, 1951 earnings of Columbia Gas System figure to be in the vicinity of $1.50 a share, against $1.18 last year. This suggests a good basis for liberalizing the 80-cent annual dividend within the medium term. It provides a current yield of about 5.2% at the price of 15⅜ prevailing at this writing. This normally slow-moving stock has performed well in recent weeks. The yield would be close to 5.9% on a 90-cent dividend rate; and over 6.5% on a $1 rate.

Mistake

Commenting on Sun Oil a fortnight ago, this column used the wrong price for the 1929 high, in saying that 100 shares bought at it would have cost $1,875. It would have cost about $8,600. Even so, the appreciation at the time of our comment would have been $28,300 on the 450 shares now held as a result of stock dividends; and we were correct in saying that the long-term performance has been much superior to that of the average oil stock. Being human, this writer can sometimes err. However, it can be noted with some satisfaction that the 10% stock dividend predicted two weeks ago came through more promptly than had been expected; that the stock quickly rose 9 points over where it was, at 82, when the comment was written; and that at this writing it has retained a gain of 6¼ points.

DECREASES SHOWN IN RECENT EARNINGS REPORTS

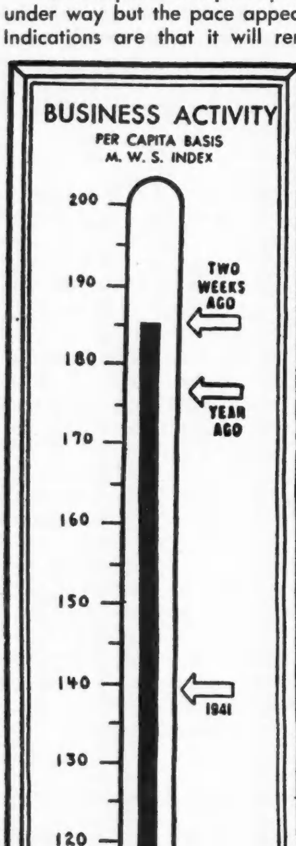
		1951	1950
Bangor & Aroostook R.R.	7 mos. July 31	$2.85	$9.28
Pennsylvania R.R.	7 mos. July 31	.04	.73
Pet Milk	June 30 Quar.	1.41	2.06
Illinois Central R.R.	7 mos. July 31	4.94	6.52
Bulova Watch Co.	June 30 Quar.	1.34	1.60
Fair (The)	26 weeks Aug. 4	.04	.52
Sears Roebuck & Co.	24 weeks July 16	1.95	2.30
Green, H. L. Co.	6 mos. July 31	1.02	1.26
Motor Products Corp.	Year June 30	8.20	9.74
Stevens (J. P.) & Co.	July 28 Quar.	.70	1.37



What's Ahead for Business?

By E. K. A.

The anticipated fall pick-up in business activity seems to be under way but the pace appears to be disappointingly slow. Indications are that it will remain slow over the next few months. In terms of the FRB index of industrial production, that indicator in August rose five points from 213 to 218 but it fell short of the peak reached in April and May, and remained four points below June, the first time in three years that August was below June. Equally important, the five-point snap-back from July to August compares with a nine-point rise in 1949 and a 13-point snap-back in 1950—with the August index in the latter year being ten points over June. The pace of improvement obviously will remain slow for a while.



Reasons are not hard to find. While factory output should increase gradually as arms production mounts, there are few if any signs that a sharp boost is in prospect. Consumer durable goods output is well below peak and declining, a trend that will be emphasized by fourth-quarter cutbacks. Besides, sales remain slow. Soft goods markets remain sticky with sales slack, inventories excessive. Retail trade, while fair, is not coming up to expectation despite rising personal incomes. That's puzzling some observers but it's not really so puzzling, as we repeatedly pointed out, if one considers income in terms of real incomes, the consumers' previous buying sprees, the prospect of higher personal income taxes, and job uncertainties in certain hard goods lines suffering from slow demand and subject to additional cutbacks.

Latest trend of department store sales is particularly disappointing. For the week ended September 15, they were off 10% on a nationwide basis from last year, this at a time when year-ago comparisons should readily show improvement since last year's September sales were abnormally low following the July-August boom. Volume of course is figured in dollars, thus price is an important factor in the totals, and prices certainly have been levelling off. They may continue so while softness in consumer demand persists.

Better retail trade may yet develop, particularly in terms of year-ago comparisons, since trade for the next few months has to compete only with the breathing spell in retail buying which occurred last fall. Figures thus should show up better; if they don't, we know that something is definitely wrong, and not just the weather.

The Controlled Materials Plan appears to be running into troubles and if the trend persists, that too will affect the recovery pace. CMP allotments are supposed to set the production pattern for industries using basic metals such as steel, copper, aluminum, but the hitch is that CMP orders don't guarantee deliveries of other needed parts and materials. This has already tended to delay production schedules and may call for early moves to correct the situation. Unless corrected, bottlenecks will persist. Administration of CMP is not exactly facilitated by creation of the new DX super-priority rating. It is feared that creation of a new "band" of priorities may lead to abuse, and a chaotic situation. This certainly was the case in World War II when only the very top rank of priorities were of any practical value. Now again comes a multiple priority system that will make programming more difficult because it makes it easier to break through established programs.

The price controllers again had to give ground on a fairly wide front. Auto price ceilings were lifted. Meat packers get easier rules, may lift ceilings under certain conditions. Copper price control continues to be a headache, with a solution now in the works that may lead to a lifting of the domestic price. Right now there exists a gap between 24½¢ for domestic metal, 27½¢ for Chilean imports and European purchases at anywhere from 40¢ to 50¢ a pound. Efforts are made to stabilize the world price at 27½¢, eliminating competitive bidding and assuring a smoother flow of imports to this country.

Inventories on August 1 reached a record figure of $70.6 billion for all business. Despite their efforts, retailers were able to reduce their stocks only by a scant $160 million, leaving them at $18.6 billion. Department store stocks remained equal to over four months' sales, highest for any August since way back in 1942. Obviously the unclogging of inventory pipelines is a slow process.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—A test of the receptiveness of long-term investors occurred in the past two weeks with the marketing of \$100 million of thirty-year 3¼% obligations of the International Bank for Reconstruction and Development. General expectation of heavy demand for the bonds proved optimistic and when the issue was freed for trading in the open market, it quickly fell to a one-point discount. The poor reception for this offering made for a heavier bond market and Treasury issues were down slightly with the bank-eligible 2½s of 1972-67 closing at 100 on September 21 compared to a price of 100¼ two weeks earlier. Observers are still trying to figure out how the Treasury intends to meet the deficit that is looming for the last quarter. There is even talk of the Treasury being \$5 billion "in the red" in the October-December period although new taxes about to be levied by Congress would cut this figure appreciably. The deficit for the July 1-September 19 period amounts to \$3.8 billion but heavy tax payments by individuals and corporations during the balance of this month may reduce this figure to \$3 billion. For the time being the Treasury continues to offer bills in order to raise "new money". The latest issue of \$1.2 billion of 91-day bills was sold at an average yield of 1.644% and will net the Government \$200 million after paying off a \$1 billion maturity. However, financing through the sale of short term obligations is inflationary and there is some talk of the possibility that the Treasury may offer a long-term non-marketable issue similar to the 2¾s of 1980-75. The market's present lack of interest in long-term obligations may be due to a realization that a great many of these will be coming to market in the not too distant future. Thus an additional \$168,709,000 of tax-exempt Housing Authority bonds will be offered on October 23. These bonds are the obligations of various local public housing authorities but are backed by the credit of the Federal Government. The first issue of these bonds was offered on July 17 with the longest term obligations, which mature in forty years, priced to yield 2.25%. The bonds have appreciated from the original offering price and are now selling to yield 2.15%. Analysis of the weekly statement of the Federal Reserve banks indicates that the System has not been supporting the bond market. Thus the Federal's holdings of government bonds have remained unchanged since the week ending July 3 when it exchanged \$1 billion of non-marketable 2¾s for five-year 1½% notes. Note holdings have also remained the same since July 25. The State of West Virginia is hoping to sell a \$67.5 million veterans' bonus issue after all, despite the ban on the issue set by the Voluntary Credit Restraint Committee last May. Plans are now afoot to sell the bonds within the State while State investment funds stand ready to take any unsold balance. Meanwhile, officials of the State of Oregon have postponed their \$40 million bonus issue after disapproval by the local restraint committee and will undoubtedly be watching the results of West Virginia's efforts with interest.

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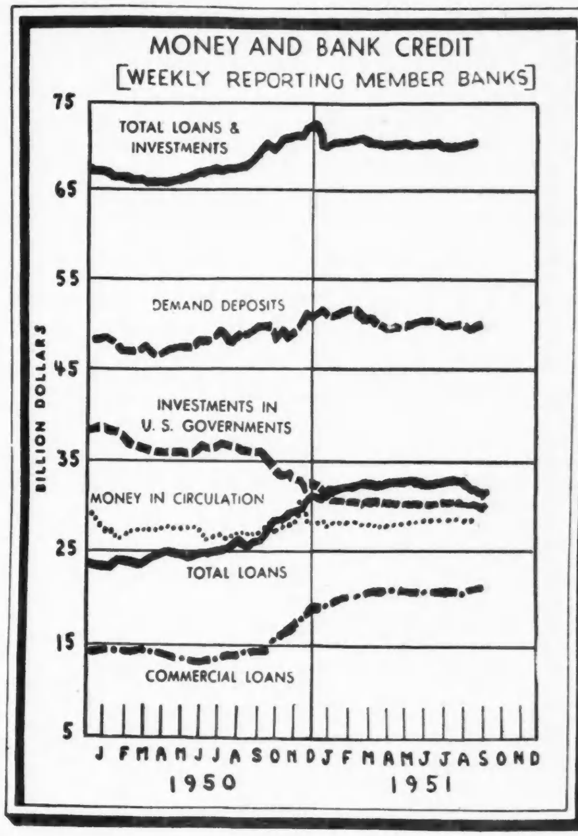
TRADE—Retailers are beginning to wonder whether they have been overly optimistic regarding a pick-up in fall business. The Federal Reserve Board reports that nation-wide department store sales for the week ending September 15 were 10% below those of a year ago. There were some reports from retailers that a re-awakening demand for washing machines and television sets could be noted but most lines saw no change in the public's buying habits.



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INDUSTRY—Industrial output continued at a high level during the past fortnight after adjustment is made for the usual Labor Day shut-downs. Steel ingot production at 101% of rated capacity in the week ending September 15 is close to the all-time peak while crude oil output and electric power production also hover near record levels. On the other hand, paper, lumber and textile mills were operating on reduced schedules.

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COMMODITIES—Commodity prices have been little changed in the past two weeks and the MWS Index of spot commodities closed at 175.2 on September 21 against 175.0 two weeks earlier. The Index has thus shown little change since it reached its low for the year at 174.8 on August 31. Textile fibers followed divergent trends during the period with spot cotton rallying one cent in the past two weeks while wooltops dropped 29 cents to close at \$1.865 per pound. Packer hides

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Aug.	3.0	3.0	1.1	1.55
Cumulative from mid-1940	Aug.	425.1	422.1	398.4	13.8
FEDERAL GROSS DEBT—$b	Sept. 20	256.9	256.7	256.8	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Sept. 12	51.4	50.6	49.3	26.1
Currency in Circulation	Sept. 19	28.1	28.2	27.1	10.7
BANK DEBITS					
New York City—$b	Sept. 12	9.5	7.9	10.6	4.26
93 Other Centers—$b	Sept. 12	15.2	12.3	14.6	7.60
PERSONAL INCOMES—$b (cd2)	July	251.6	251	223	102
Salaries and Wages	July	166	166	143	66
Proprietors' Incomes	July	49	48	45	23
Interest and Dividends	July	20	20	18	10
Transfer Payments	July	13	13	12	3
(INCOME FROM AGRICULTURE)	July	22	21	19	10
POPULATION—m (e) (cb)	Aug.	154.6	154.4	151.9	133.8
Non-Institutional, Age 14 & Over	Aug.	108.9	108.9	109.6	101.8
Civilian Labor Force	Aug.	64.2	64.4	64.9	55.6
unemployed	Aug.	1.6	1.9	2.5	3.8
Employed	Aug.	62.6	62.5	62.4	51.8
In Agriculture	Aug.	7.7	7.9	8.2	8.0
Non-Farm	Aug.	54.9	54.6	54.2	43.8
At Work	Aug.	57.8	56.6	57.9	43.2
Weekly Hours, non-farm	Aug.	42.4	42.3	42.3	42.0
Man-Hours Weekly—b	Aug.	2.45	2.39	2.45	1.82
EMPLOYEES, Non-Farm—m (lb)	July	46.4	46.4	44.1	37.5
Government	July	6.4	6.4	5.7	4.8
Factory	July	12.9	13.0	12.2	11.7
Weekly Hours	July	40.4	40.8	40.5	40.4
Hourly Wage (cents)	July	159.8	160.1	146.2	77.3
Weekly Wage ($)	July	64.56	65.32	59.21	21.33
PRICES—Wholesale (lb2)	Sept. 18	176.7	176.9	170.3	92.5
Retail (cdlb)	July	206.7	206.6	190.0	116.2
COST OF LIVING (lb3)**	July	185.5	185.2	172.0	100.2
Food	July	227.7	226.9	208.2	113.1
Clothing	July	203.3	204.0	184.6	113.8
Rent	July	136.2	135.7	131.3	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	July	11.8	11.9	12.3	4.7
Durable Goods	July	3.7	3.9	4.8	1.1
Non-Durable Goods	July	8.1	8.0	7.6	3.6
Dep't Store Sales (mrb)	July	0.87	0.85	1.02	0.39
Retail Sales Credit, End Mo. (rb2)	July	10.9	11.0	10.9	5.5
MANUFACTURERS'					
New Orders—$b (cd) Total	July	20.7	23.2	22.2	14.6
Durable Goods	July	10.0	12.0	10.6	7.1
Non-Durable Goods	July	10.8	11.2	11.7	7.5
Shipments—$b (cd)—Total	July	19.8	22.4	18.7	8.3
Durable Goods	July	8.9	10.7	8.0	4.1
Non-Durable Goods	July	11.0	11.7	10.7	4.2
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	July	70.7	70.5	54.2	28.6
Manufacturers'	July	40.4	40.0	30.0	16.4
Wholesalers'	July	11.7	11.9	9.5	4.1
Retailers'	July	18.6	18.7	14.7	8.1
Dept. Store Stocks (mrb)	July	2.8	2.8	2.1	1.2
BUSINESS ACTIVITY—1—pc	Sept. 15	185.8	186.1	177.4	141.8
(M. W. S.)—1—np	Sept. 15	216.7	217.1	207.9	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 35)

were strong and rose to 34½ cents from the September 7 level of 30 cents.

* * *

EXPENDITURES FOR NEW PLANT AND EQUIPMENT by American business in the last quarter of this year are expected to show the first down-turn from the preceding quarterly total since the start of the Korean war. Total outlays are estimated at $6.6 billion in the October-December period, compared with $6.8 billion for the current quarter and $5.8 billion in the last quarter of 1950, according to the joint report of the Securities & Exchange Commission and the Commerce Department. After adjustment for rising costs, the physical volume of plant and equipment purchased in 1951 is expected to be about one-fourth more than in 1950. In the last quarter of this year, manufacturing companies are planning to spend $3,580 million for expansion compared to $2,790 used for this purpose in the same period a year earlier. Railroad spending will rise to $460 million from $400 million currently and $320 million the last three months of 1950. The only category that is expected to show a decline from a year ago, is the commercial group which is planning outlays of $1,180 million compared to $1,360 million in the present quarter and $1,440 million in the last quarter of 1950. These estimates of capital expansion plans for the fourth quarter may well prove high if allocations of critical materials are inadequate.

* * *

NEW BUSINESS INCORPORATIONS in July amounted to 6,386 firms, the smallest monthly total since November 1950 when 6,256 new firms were incorporated. Business births in June of this year totalled 6,810 while 7,191 new businesses were started in July of last year.

* * *

Manufacturers' **RAYON SHIPMENTS** during August fell to 98.2 million pounds which was 8% below July's figure of 106.9 million pounds and 13% under the 112.7 million pounds delivered in August 1950. With rayon production continuing at a high level, **RAYON STOCKS** in the hands of producers rose spectacularly to a total of 42.2 million pounds on August 31, a 69% rise from the 24.9 million pounds held a month earlier. A year ago, stocks amounted to only 14.4 million pounds.

* * *

Output of new **FREIGHT CARS** totalled 7,183 units despite labor difficulties which have since been settled, according to the joint report of the Association of American Railroads and the American Railway

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1—np (rb)	July	215	222	196	174
Mining	July	160	167	144	133
Durable Goods Mfr.	July	267	276	235	220
Non-Durable Goods Mfr.	July	189	197	181	151
CARLOADINGS—t—Total	Sept. 15	851	733	866	833
Misc. Freight	Sept. 15	403	343	406	379
Mdse. L. C. L.	Sept. 15	75	63	90	156
Grain	Sept. 15	53	44	50	43
ELEC. POWER Output (Kw.H.) m	Sept. 15	7,138	6,795	6,449	3,267
SOFT COAL, Prod. (st) m	Sept. 15	10.9	9.2	11.4	10.8
Cumulative from Jan. 1	Sept. 15	368	357	345	44.6
Stocks, End Mo.	July	74.1	77.0	52	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Sept. 15	6.3	6.3	5.9	4.1
Gasoline Stocks	Sept. 15	114	115	104	86
Fuel Oil Stocks	Sept. 15	48	48	42	94
Heating Oil Stocks	Sept. 15	99	96	74	55
LUMBER, Prod.—(bd. ft.) m	Sept. 15	632	530	672	632
Stocks, End Mo. (bd. ft.) b	July	7.5	7.1	6.2	12.6
STEEL INGOT PROD. (st) m	July	8.70	8.66	8.08	6.96
Cumulative from Jan. 1	July	61.0	52.3	55.3	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Sept. 20	232	189	239	94
Cumulative from Jan. 1	Sept. 20	10,389	10,157	8,720	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Sept. 15	201	262	208	165
Cigarettes, Domestic Sales—b	July	30	32	30	17
Do., Cigars—m	July	422	503	401	543
Do., Manufactured Tobacco (lbs)m	July	16	19	16	28

PRESENT POSITION AND OUTLOOK

Car Institute. July freight car deliveries amounted to 5,290 and that month was also beset with labor troubles. Railroads placed **NEW ORDERS** for only 1,828 freight cars during August but the order backlog is still large and totalled 139,014 cars on Augsut 31 compared to unfilled orders for 76,582 cars a year ago.

* * *

Manufacturers' shipments of **PASSENGER TIRES** during July decreased 8.34% to 5,216,883 casings from 5,691,386 in June, according to the report of the Rubber Manufacturers Association, Inc. Production of passenger tires decreased 6.94% in July from the output of a month earlier while **INVENTORY** on hand rose slightly to 2,538,650 casings on July 31 from 2,526,749 at the end of June, but was still far below the 5,689,724 casings on hand on July 31, 1950.

* * *

SALES OF RADIO AND TELEVISION RECEIVING TUBES by manufacturers during July totalled 13,185,567, a 50% drop from June sales of 27,667,099 tubes, according to the Radio-Television Manufacturers Association. The Association attributed most of the decline to plant shutdowns for vacations. Sales of television picture tubes in July totalled 89,144 units valued at $1.9 million versus June sales of 221,759 tubes worth $4.7 million.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated, en—Engineering News-Record. I—Seasonally adjusted index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935—100). lt—Long tons. m—Millions. mpt—At mills, publishers, and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, instalment sale credit and charge accounts. st—Short tons. t—Thousands. *—1941; November, or week ended December 6. **—Seasonally adjusted.

THE MAGAZINE OF WALL STREEET COMMON STOCK INDEXES

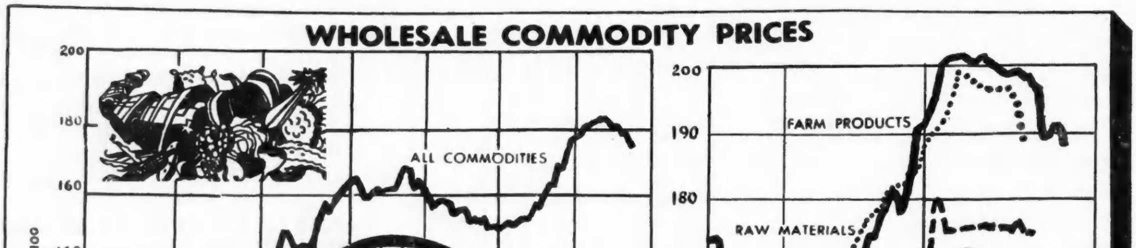
No. of Issues (1925 Cl.—100)	1951 Indexes High	Low	Sept. 14	Sept. 21
334 COMBINED AVERAGE	199.8	172.6	199.8	199.2
4 Agricultural Implements	292.7	246.5	288.4	285.9
10 Aircraft ('27 Cl.—100)	333.0	252.8	326.8	330.0
7 Air Lines ('34 Cl.—100)	764.7	634.0	732.0	712.4
8 Amusements	108.9	86.6	103.6	108.9A
10 Automobile Accessories	257.6	216.2	243.8	253.0
11 Automobiles	46.3	36.1	41.0	41.4
3 Baking ('26 Cl.—100)	23.2	21.0	21.6	21.8
3 Business Machines	410.1	300.8	410.1	398.3
2 Bus Lines ('26 Cl.—100)	183.1	150.6	150.6	150.6
6 Chemicals	427.8	326.0	421.3	418.0
3 Coal Mining	18.3	13.2	14.0	14.4
4 Communications	72.5	58.3	70.0	72.5
9 Construction	70.1	60.2	68.9	70.1A
7 Containers	487.0	376.5	487.0	483.3
9 Copper & Brass	164.1	126.3	164.1	160.1
2 Dairy Products	83.4	75.9	83.2	82.4
5 Department Stores	84.5	66.0	78.3	76.9
6 Drugs & Toilet Articles	235.0	213.6	230.5	230.5
2 Finance Companies	308.1	243.0	305.6	303.2
7 Food Brands	200.9	171.4	187.8	185.9
2 Food Stores	118.4	103.8	110.5	108.3
3 Furnishings	75.0	65.7	67.7	67.7
4 Gold Mining	724.1	579.3	718.5	674.0

(Nov. 14, 1936, Cl.—100)	High	Low	Sept. 14	Sept. 21
100 HIGH PRICED STOCKS	123.4	107.1	123.4	122.1
100 LOW PRICED STOCKS	245.8	208.6	243.3	243.6
5 Investment Trusts	98.1	84.8	97.2	98.1A
3 Liquor ('27 Cl.—100)	1238.7	1066.6	1238.7	1204.2
11 Machinery	212.1	177.7	212.1	210.2
3 Mail Order	152.0	125.3	141.3	142.6
3 Meat Packing	109.1	85.7	97.1	94.0
13 Metals, Miscellaneous	302.4	233.0	302.4	300.0
4 Paper	416.9	344.3	413.5	416.9
29 Petroleum	443.8	355.0	443.8	433.1
30 Public Utilities	152.8	152.5	151.4	152.8
9 Radio & TV ('27 Cl.—100)	31.4	26.6	30.4	31.4
8 Railroad Equipment	73.8	57.5	65.7	65.7
24 Railroads	45.4	34.2	42.4	42.4
3 Realty	41.0	34.3	38.6	38.2
3 Shipbuilding	181.0	139.1	181.0	177.7
3 Soft Drinks	395.5	320.3	330.5	323.7
15 Steel & Iron	169.5	134.1	159.2	157.7
3 Sugar	77.6	66.5	74.7	71.0
2 Sulphur	585.9	425.3	555.5	585.9A
5 Textiles	223.6	191.3	217.5	209.5
3 Tires & Rubber	72.4	51.2	71.9	72.4A
6 Tobacco	86.1	75.3	81.0	81.0
2 Variety Stores	322.6	301.1	322.6	322.6
20 Unclassified ('49 Cl.—100)	127.3	109.4	123.1	122.0

A—New High for 1951.

Trend of Commodities

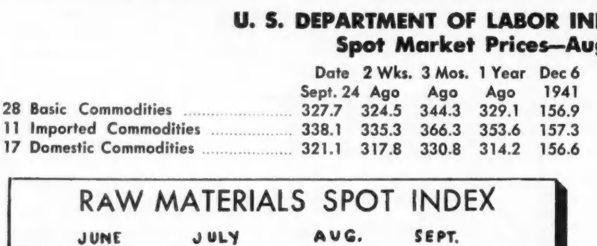
Commodity futures during the past two weeks appeared to ignore war news and traders paid more attention to specific developments in individual commodities. The fortnightly period saw higher prices for future deliveries of corn, rye, soybeans, lard, cotton, and coffee, while a trend towards lower levels was evident for cocoa, sugar and wool futures. Wheat futures were mixed with the May option closing at 248⅜ on September 24, up ½ cent since September 10, while the December 1950 option lost 1¼ cents during the period. Weather reports in the wheat belt were favorable during the past fortnight and marketings were comparatively large. The official September crop estimate forecast total production of 999 million bushels of the bread grain, about the same as the August estimate. Domestic and export needs are expected to exceed production by some 75 million bushels, leaving a carry-over of about 320 million bushels on July 1, 1952, compared to last season's 395 million bushels. Weather reports were also an important influence on corn prices which eased on early favorable reports but spurted later on news of frosts. December corn closed at 175½ on December 24, up 4¾ cents in two weeks time. The Department of Agriculture forecast a corn crop of 3,131 million bushels based on September 1 conditions, a 76 million bushel reduction from the August estimate. Cotton prices rallied strongly in the past two weeks with the nearby October future up two cents as Southern farmers withheld cotton from market. Bullish ideas were also helped by the announcement that the Export-Import Bank is negotiating loans to foreign countries to enable them to purchase cotton. However, textile business continues poor with talk of further mill curtailment.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

	Date Sept. 24	2 Wks. Ago	3 Mos. Ago	1 Year Ago	Dec 6 1941
28 Basic Commodities	327.7	324.5	344.3	329.1	156.9
11 Imported Commodities	338.1	335.3	366.3	353.6	157.3
17 Domestic Commodities	321.1	317.8	330.8	314.2	156.6

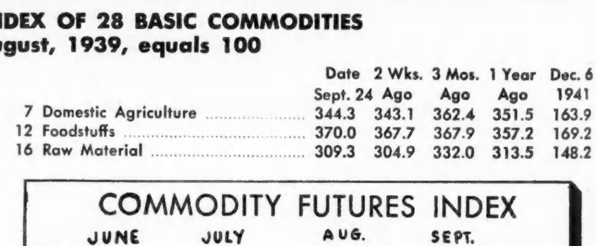
	Date Sept. 24	2 Wks. Ago	3 Mos. Ago	1 Year Ago	Dec. 6 1941
7 Domestic Agriculture	344.3	343.1	362.4	351.5	163.9
12 Foodstuffs	370.0	367.7	367.9	357.2	169.2
16 Raw Material	309.3	304.9	332.0	313.5	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1951	1950	1947	1945	1941	1939	1938	1937
High	214.5	304.7	164.0	95.8	74.3	78.3	65.8	93.8
Low	174.8	134.2	126.4	93.6	58.7	61.6	57.5	64.7



Average 1924-26 equals 100

	1951	1950	1947	1945	1941	1939	1938	1937
High	215.4	202.8	184.4	111.7	88.9	67.9	57.7	86.6
Low	176.4	140.8	123.0	98.6	58.2	48.9	47.3	54.6

Keeping Abreast of Industrial and Company News

Butler Brothers, 75-year old merchandising chain, is aggressively expanding its West Coast interests with the construction of five major department stores four in the Los Angeles area and one in San Francisco. Additionally, the company is leasing a new department store location in Northgate, Seattle, one of America's largest planned shopping centers. The Northgate building will have two floors and a mezzanine devoted to selling space. The store is scheduled for completion January 1st and will open early in 1952.

The "first significant spark plug design change in thirty years!" is claimed by the **Boeing Airplane Company** which has developed an anti-fouling spark plug. Fundamentally, the key to the new plug's advantages lies in the use of a special pre-combustion chamber. Recessed within the plug's structure, it gives inherent protection to the electrodes and all other critical parts. In addition to anti-fouling tests, the Boeing plug has resulted in improved starting characteristics, smoother and slower idling, smoother and more rapid acceleration with no increase in fuel consumption, a wide heat range and a greater resistance to breakdown. The anti-fouling properties of the new plug are relatively more important to the aircraft engine than to the automobile since the high lead content of certain aircraft fuels subjects those engines to more serious and more rapid fouling. The company reports that the new plug has been tested sufficiently to satisfy its designers that it will provide dependable, life-long operation in any kind of gasoline engine.

The old-line **Bridgeport Brass Company** has exhibited alert progressiveness in being the first to adopt the new automatic selective pneumatic tube system developed by the Mix and Genest German subsidiary of the International Telephone and Telegraph Corporation. The system, regarded as the most revolutionary advance in the pneumatic tube field for seventy years, went into operation at Bridgeport's Housatonic plant. The new pneumatic tube method is both automatic and selective. A special selective dial on the inter-office carrier permits the sender to forward his message or article to any one of nine stations in the plant without the intervention of an operator or a central dispatcher. It is this "sixth sense" or ability to route carriers automatically to any given point that makes the new system so radically different from the conventional, manually-operated installation.

Standard Oil Company (Indiana) has announced that construction has been started at its Whiting, Indiana, refinery, on a plant for the production of fifty-five tons per day of elemental sulphur. The new plant will extract hydrogen sulfide from by-product fuel gases produced at the refinery and convert it into elemental sulphur of 99 per cent purity. Provided no delays are encountered in obtaining the necessary construction materials, it is expected that the plant will be completed and ready for operation by about the middle of 1952. This project is of particular interest at this time, in view of the world-wide shortage of sulphur which has developed recently and which has caused the National Production Authority to place restrictions on its use, bringing it under strict allotment control. Sulphur is essential to many phases of petroleum refining and to most basic industry either in its elemental form or after conversion to sulphuric acid. Most of the Whiting production will be converted to sulphuric acid on exsisting plant facilities for use in alkylation and treating operations.

A substitute for tin has been created by the **Reynolds Metals Company** which has bonded three-ply aluminum foil with plastics. Production of the new material is starting immediately but all of the present output will go to fill requirements of the armed forces. Since tin, like natural rubber is one of the defense-vital materials not domestically produced and the price has increased better than 500 per cent since the start of the war, the creation of the new tin substitute is of vital significance. The two chief benefits to be derived are a reduction in price and the assurance of an adequate supply in emergency.

The Pennsylvania Railroad is "mechanizing" the traveling diners' problem by serving fresh sandwiches, pasteries, candy, ice cream, milk and coffee in automatic coin-operated machines. Five of these machines, especially designed for use on trains, each dispensing different items of food and drink, have been installed in a passenger coach now in daily use in the road's New York-Washington service. The specially-equipped car is being used experimentally for a 30-day trial period on a number of leading day-time trains and is in addition to the regular dining car service. The machines are serviced at station stops and are located in a convenient car with signs at the end of each coach to direct patrons to them.

Dewey and Almy Chemical Company has literally put the houswives' cooking cares "in the bag". The company is developing the idea of offering consumers dressed, stuffed poultry, ready to cook, in a plastic bag. The food, bag and all, is taken directly from the market, refrigerator or freezer and put right in the oven for cooking, cutting down preparation and cooking time plus completely eliminating the need for basting. The company is doubling its capacity for the production of these Cry-O-Rap bags. The process, which permits this remarkable cooking innovation, is relatively simple. At the factory the item to be packaged is placed in the plastic

bag, and then is vacuum-sealed and flash-dipped in hot water which shrinks the bag around the product like a second skin. These air-tight bags prevent dehydration of frozen and refrigerated meats and enables them to retain their flavor and bloom better than other types of wraps, according to the company.

The Frigidaire, Detroit Diesel Engine and Delco Products Divisions of **General Motors Corporation** are currently building railway mechanical refrigerating equipment for the Fruit Growers Express Company, one of the largest handlers of fresh fruits and frozen juice concentrates. The new system promises to revolutionize refrigerator-car cooling methods. The system consists of a Frigidaire compressor, condenser, cooling coils and a Diesel-electric unit to supply the necessary electric power. When the car is being loaded, the system can be quickly and easily plugged into an outside power source for long periods of standby operation. Except for the 320-gallon fuel tanks located beneath the car, all of the equipment involved is located in a compact machine equipment compartment at one end of the car. This mechanical system eliminates the bother and delay of re-icing at the 24-hour intervals necessary under the conventional refrigeration system and also produces continuous temperatures of around zero degrees, which are not attained by the ice and brine method of cooling.

The Aro Equipment Corporation of Bryan, Ohio, announces that it has purchased Pyles Industries, Inc., of Detroit, Michigan. The new corporation will bear the name of Pyles Industries, Inc., Subsidiary of Aro Equipment Corporation. Pyles Industries, Inc., is a leading manufacturer of industrial equipment such as heavy duty pumps for handling mastics, sealers, and sound deadeners and metering devices, flow guns and special equipment for handling industrial lubricants. This acquisition gives Aro a complete line of industrial equipment to complement its already broad line of lubricant dispensing equipment presently being sold to the petroleum marketing industry. Pyles Industries, Inc., sales for the 1951-52 fiscal period are expected to be over $1 million.

Development of a new electronic information-searching machine to help solve one of the most burdensome problems in scientific research was announced by the **International Business Machines Corporation.** Coupling electronic principles embodied in many of its standard electronic business machines with a new machine "language" of 792 characters, IBM has come up with an experimental full-scale working model that uses photo-electric eyes to read scientific information from IBM cards at the rate of 1,000 per minute. Briefly, this is how it works: Information contained in a book or an article or an abstract, or even a key paragraph, is condensed in terms of the new machine language. Then this condensed information is transferred into IBM cards. When information on a certain subject is desired, a "question" card is placed in the electronic scanning machine. The machine then proceeds to match the question and information cards, selecting those which give the answers or tell specifically where the answers can be found. An important application of the new method is likely to be in the field of searching for similar chemical compounds and corresponding problems exist in other fields, such as law and medicine, to name only two.

Salicyamide, indicated by recent clinical research to be much more effective than aspirin in reducing pain and fever without digestive disturbances and other side effects of a harmful nature frequently caused by aspirin, will be offered to the pharmaceutical industry in commercial quantities by **Heyden Chemical Corporation** this month. Salicyamide has more than seven times the pain killing potency of aspirin (acetysalicylic acid) and twice as much as antipyrine, according to recent tests. In contrast to other salicylates, salicylamide consistently was well tolerated in high dosages in addition to proving very effective in reducing pain and fever. Particularly favorable results were noted in treatment of rheumatic disorders affecting the muscles, ligaments and joints.

New York Central Railroad and affiliated lines, are launching an extensive program of freight yard improvements, keyed to the rapid industrial expansion in areas served by the Central System and to industry's anticipated future needs. Involving the expenditure of several millions of dollars at five important freight centers in four states, the program will provide greater yard capacity and flexibility resulting in faster, more efficient service, according to the railroad.

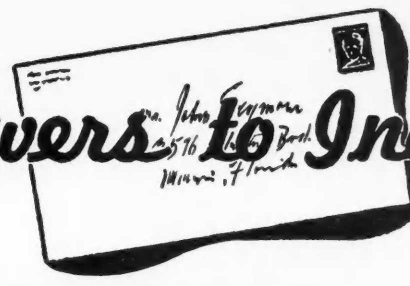
Continental Motors Corporation has purchased from Societe Turbomeca of Bordes, France, exclusive United States manufacturing rights to a family of nine gas turbines developed under sponsorship of the French Air Ministry, spanning a horsepower range from 200 to 1100, and now ready for production after exhaustive tests in actual use. Military applications such as guided missiles, helicopters, target planes, utility aircraft and air compressors constitute the biggest immediate market. The company indicates, however, that it believes that the new turbines eventually will increase far beyond present limits, the capacity and usefulness of medium-sized utility aircraft used commercially and certain types of specialized industrial equipment.

The order backlog for the huge new Super Constellation airliners now in production at the **Lockheed Aircraft Corporation** has passed the $100 million mark, with orders from two international airlines for six of the luxury transports. The transports, powered with four 3,250 h.p. Wright compound engines for cruising speeds of 330-340 m.p.h. sell for about $1.5 million each. Sixty-eight Super Constellations are now on order for the airlines, exclusive of large numbers to be built for the military.

Contracts amounting to $5,155,500 for the engineering and construction of a new-type "abandon ship" inflatable boat and an improved 12-ton half-float have been signed with the United States Navy and the Army Engineer Corps, according to an announcement of the **Firestone Tire & Rubber Company.** The boats and floats will be produced in Firestone's plant at Memphis, Tennessee.

A new kind of glass which can be precision-machined through the use of ultraviolet light, heat and hydrofluoric acid to form intricately cut patterns of any desired shape and depth is the latest in a series of photo-sensitive compositions developed by **Corning Glass Works.**

Answers to Inquiries



The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Frank G. Shattuck Company

"Please advise on recent operations of Frank G. Shattuck Company, operators of Schraft's Restaurants and also dividend payments."

R. C., Springfield, Mass.

Frank G. Shattuck Company and subsidiaries reported sales (intercompany sales deducted) for the first six months of 1951 of $18,797,972, net income before Federal taxes $69,067, Federal taxes estimated at $32,753, leaving net profit after taxes of $36,314. This compares with first half of 1950 sales of $17,826,784, net income before Federal taxes of $714,653, Federal taxes estimated at $269,173, leaving net profit after taxes of $445,480.

Net profit to June 30, 1951 is approximately 3.3 cents per share on the 1,105,400 shares outstanding, as compared with earnings of 40 cents per share on the 1,111,200 shares outstanding at the same date 1950.

While sales for the first half of 1951 increased $971,188, profits were adversely affected by the high costs which have prevailed this year in foods and all commodities, many of which are not under price control regulations. At the same time, selling prices have been frozen or subject to revision on the basis of formulas prescribed by Government order. Under these regulations restaurant prices have been increased somewhat to absorb mounting food and labor costs. However, there has been increased consumer resistance to rising selling prices and therefore, it has been difficult to establish a selling price schedule in line with costs. Selling prices for candy and bakery products are frozen. Dividends including extras totalled $1.00 a share in 1950 and 10 cents is the current quarterly rate.

Stokely-Van Camp Inc.

"I hear that net profit of Stokely-Van Camp increased sharply in the past fiscal year and was wondering whether this has affected an increase in the dividend rate? Please advise on this matter and prospects for the company over coming months."

T. E., Honolulu, Hawaii

Consolidated net sales of Stokely-Van Camp Inc., leading American packer of food products, for the fiscal year ended May 31, 1951 reached an all-time high of $114,-914,724. Net sales for the 1950 fiscal year were $95,918,801.

Earnings, after taxes on income, amounted to $4,761,409, or $4.02 per common share, compared to earnings last year of $2,168,171, or $1.58 per common share, after giving effect to applicable adjustments. Working capital on May 31, 1951 totaled $34,-124,725 compared with $31,616,-806 on May 31, 1950, after adjustments.

Current assets totalled $45,765,-842 against current liabilities of $11,614,117. Despite more favorable earnings, no change was made in the cash dividend rate during the year. However, management is considering the possibility of declaring and paying a stock dividend in the late Fall of this year as plans now under consideration for simplifying the company's corporate structure materialize.

The company has elected to adopt the last-in first-out method of valuing inventory on certain items. The result of this accounting method will be to minimize the variable effect of rapid price changes in materials and supplies on the operating results.

The company's frozen foods division presents an excellent potential for further expansion and the company intends to develop this part of its business fully.

New construction has been completed during the year for the company and commitments have been made for additional construction including new warehouses in Dallas, Texas and in the Los Angeles area.

Dividends in 1950 totalled $1 a share and the regular 25 cent quarterly rate has continued this year.

Yale & Towne Manufacturing Company

"I hear that Yale & Towne Manufacturing Company is a peace and war company. Will you please present recent earnings of the company, order backlog and dividends."

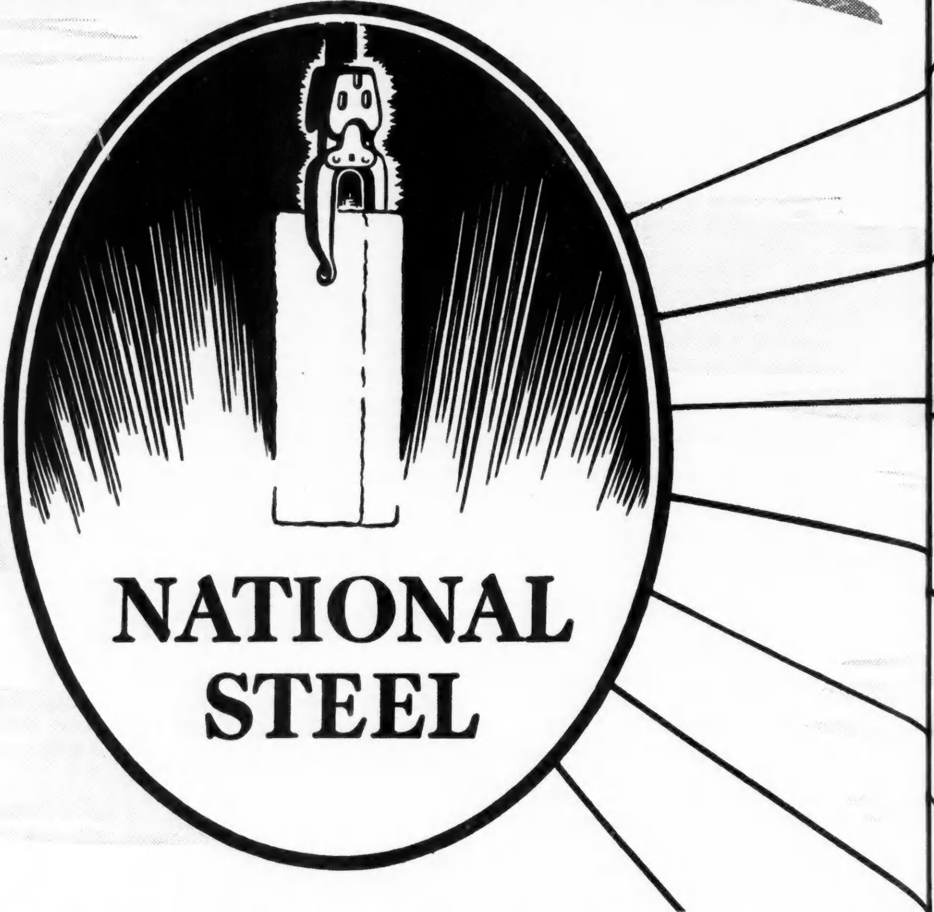
E. T., Columbus, Ohio

Yale & Towne, one of the leading manufacturers of materials handling equipment and locks and builders' hardware, established a new sales record for any six months period in its 83-year history with shipments totalling $46,472,451 from its plants in the United States, Canada and England.

Sales for the first six months of 1951 represent an increase of $17,467,084 or 60.2% over the corresponding period in 1950 when sales from these plants totalled $29,005,367. Another new quarterly sales record was made in the June quarter with $23,708,-118 which exceeded the previous record made in the March quarter by $943,785.

(*Please turn to page* 50)

This is National Steel



National Steel is a complete, self-contained steel producer. Its production starts in National Steel properties beneath the earth's surface. It ends with finished steel and specialized products that National Steel furnishes to the industries of America.

Within its structure, National Steel possesses every resource and every facility required for the transformation of ore into steel.

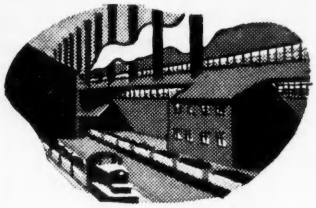
National Steel mines and quarries yield its raw materials. National Steel boats, barges and trucks transport its products. National Steel men and furnaces, mills and machines, melt... roll... finish ... distribute its steel.

And National Steel continues to expand, continues to implement its steel-making power. The completion of a new blast furnace, open hearth furnaces and other major facilities will increase its annual capacity from 4,750,000 to 6,000,000 tons of ingots by 1952. In addition, National recently purchased a site for a completely new mill on the East Coast.

This is National Steel . . . completely integrated, completely independent . . . one of America's largest and fastest growing producers of steel.

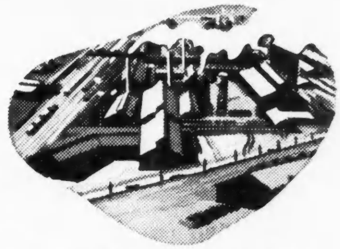
NATIONAL STEEL CORPORATION
GRANT BUILDING — PITTSBURGH, PA.

SERVING AMERICA BY SERVING AMERICAN INDUSTRY



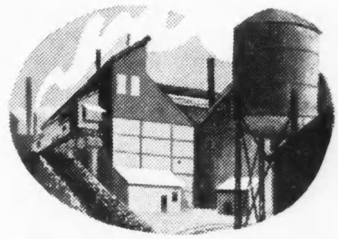
GREAT LAKES STEEL CORP.

Detroit, Michigan. The only integrated steel mill in the Detroit area. Produces a wide range of carbon steel products . . . is a major supplier of all types of steel for the automotive industry.



WEIRTON STEEL COMPANY

Mills at Weirton, West Virginia, and Steubenville, Ohio. World's largest independent manufacturer of tin plate. Producer of a wide range of other important steel products.



STRAN-STEEL DIVISION

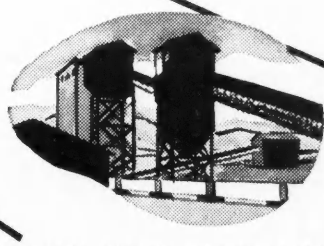
Unit of Great Lakes Steel Corporation. Plants at Ecorse, Michigan, and Terre Haute, Indiana. Exclusive manufacturer of world-famed Quonset buildings and Stran-Steel nailable framing.

HANNA IRON ORE COMPANY

Cleveland, Ohio. Produces ore from extensive holdings in Great Lakes region. National Steel is also participating in the development of new Labrador-Quebec iron ore fields.

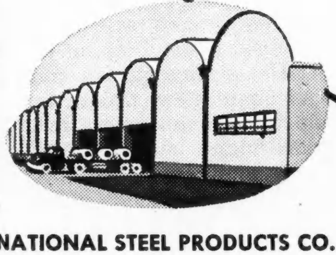
THE HANNA FURNACE CORP.

Blast furnace division of National Steel located in Buffalo, New York.



NATIONAL MINES CORPORATION

Coal mines and properties in Pennsylvania, West Virginia and Kentucky. Supplies high grade metallurgical coal for the tremendous needs of National Steel.



NATIONAL STEEL PRODUCTS CO.

Located in Houston, Texas. Recently erected warehouse covers 208,425 square feet. Provides modern facilities for distribution of National Steel products throughout Southwest.

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REET

Outlook For Civilian Supplies Under New Cutbacks

(*Continued from page* 15)

not because of material problems but because of selling problems. In July, shipments were down to 92,000 sets compared with 588,000 units in June and an average of better than 900,000 during the first quarter. The low July figure is probably not typical for current production, output then having been affected by other factors such as plant shutdowns for vacations, etc. Yet a cutback to 58% of the base period would mean a monthly production allowable of some 470,000 radio sets which should be adequate to meet prospective demand.

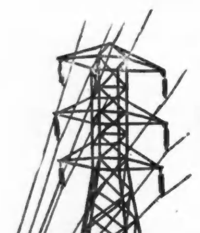
Production of washing machines has been curtailed relatively less in recent months for reasons stated. Shipments in June were around 262,000 units compared with the year's high of 377,000 in January and a 1950 high of 440,000 units in October. Inventories are not particularly burdensome, it is understood, except in lesser known brands. A production cutback to 58% of the base period would point to a quota of some 194,000 units, *less* than the latest reported monthly shipment figure of 262,000 units for June. In this field, then, a moderate shortage potential could be discerned, particularly as far as better known brands are concerned, but it would not likely be very serious.

The attitude of consumers is of course an important point to consider and there is nothing to indicate that buyers will scramble for goods. As for the longer range view, while smaller amounts of materials will be available to appliance makers over the next six months, the prospect is that the supply pinch will ease thereafter, with defense demands reaching their peak early next year. The impression exists that fourth quarter cutbacks and those likely to apply to the first quarter of 1952 may be somewhat more drastic than actually required, for precautionary reasons, and that production quotas for the second half of 1952 may be correspondingly more liberal. The latter of course presupposes no further speed-up in the arms program.

Our conclusion is that real shortages of consumer hard goods are not in sight despite production cutbacks. This applies even more to such items as furniture and home furnishings where inventories are heavy and sales sluggish. The latter are bound to stay below 1950-51 peak levels because of the lower rate of residential construction and new family formation. And it is certainly true of soft goods where inventory gluts, lack of orders, declining production and generally "sticky" markets have resulted from disappointing consumer demand. Even were the latter to veer more towards soft goods as consumer spending is choked off on hard goods lines, the soft goods supply could be quickly stepped up to meet any increase in demand.

The indication is that in virtually all lines, soft or hard goods, there will be enough of most things to go around even with cutbacks now impending or envisaged. Heavy inventories plus fairly adequate new production will help to tide consumers over until more metal becomes available for civilian use.

It stands to reason that production cutbacks, whether mandatory or voluntary, are bound to affect company earnings adversely, and third and fourth quarters earnings reports may be revealing in this respect. How much relief can



A *Business-managed Tax-paying* American Enterprise with 76,251 OWNERS

Yes, there are 76,251 stockholders in Ohio Edison Company—holders of common and preferred shares. At current market prices this ownership is worth about $189,000,000. These invested savings have helped build electric facilities to serve a territory of over 1,800,000 population.

Who are these people? And where do they live?

Ohio Edison stockholders live in every state in the Union and in 29 foreign countries. There are 32,000 men and 31,000 women owning stock as individuals, and 9,400 individuals owning stock jointly or as fiduciaries. They represent almost every trade and occupation. Over 18,000 of them live in Ohio and Pennsylvania.

Then there are over 3,200 other stockholders—insurance companies with their millions of policy holders backed by such investments as these; religious, educational and other institutions; labor unions, pension funds and trust funds.

This is the American way—a true people's ownership—where people invest in business-managed, tax-paying enterprises, to build resources that serve the public without any burden on tax-payers or public credit—and where people, as owners and builders, receive "wages" on their investment working for the public good.

OHIO *Edison* COMPANY

General Offices: Akron, Ohio

be expected from mounting defense work remains to be seen. In most instances, the proportion of military business to civilian production has been rather small and the ratio is not likely to climb very rapidly. While defense orders received, particularly in the auto industry, have been substantial, actual deliveries will be spread out over a considerable period. Lower earnings and quite possibly some further slack in employment in consumer durable goods industries seem therefore in the offing.

Investment Study of U. S. Rubber

(*Continued from page* 26)

was turned over 4.14 times in 1950 compared to 3.08 times in 1949 and at the 2.4 turnover rate of the first half of this year it is not inconceivable that a ratio of five times will be reached this year. Last year, inventory was turned over 5.7 times compared to 1949's 4.7 times and during the recent half year, a 35 per cent larger inventory was turned over 2.6 times which seems to indicate that 1950's inventory turnover performance will be near repeated this year.

On the other hand, it should be pointed out that the larger business volume has forced down the current ratio by increasing current liabilities, particularly "accounts payable." As of June 30, 1951, the current ratio stood at 2.08 to 1 compared to 2.49 at the end of 1950 and 3.85 at the end of 1949. Also, while "accounts payable" are larger, the company's "accounts receivable" are outstanding longer now and while they are higher in amount, the provision for bad debts was roughly cut in half in 1950 versus 1949, probably reflecting the increased volume of Government business.

Lastly, long term debt of the firm amounts to 48 per cent of the total capitalization, a high ratio for an industrial company and particularly one which operates in such a volatile industry. The considerable leverage factor inherent in substantial funded debt and a large preferred stock issue no doubt accounts in some degree for the sharp gain in per share net in the face of rising costs and taxes. The best net

(*Please turn to page* 46)

U. S. Rubber

(*Continued from page* 45)

profit margin of 4.6 cents out of each sales dollar was recorded in 1946 and a low of 2.9 cents per dollar of sales was reached in 1949, followed by sharp improvement thereafter as volume began to soar. In 1950, the net profit margin amounted to 3.5 cents per sales dollar and for the first half of this year has been boosted to 3.8 cents.

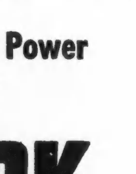
The downtrend of automobile production during the second half of this year which already has cut overall assembly operations to about 50% of capacity, will naturally have its impact on the company's important tire division despite the steadying influence of replacement sales which should hold up well. Military business on the other hand, being mostly of the low-margin variety, will hardly prove an adequate offset, thus somewhat lower earnings are indicated for the second half. It is estimated that output for the military, which was around 6% of sales last year and currently amounts to about 11%, will increase somewhat further as additional orders are released by Washington.

Full 1950 earnings nevertheless should be substantial, more than amply covering the indicated dividend of $6 a share. At current price of around 71, the shares on basis of a $6 disbursement yield 8.47%, definitely an attractive return for a stock of this calibre. However, while some further moderate market appreciation is possible, nothing spectacular should be looked for in the near future, considering the substantial advance in price which the stock enjoyed this year and the difficulty in evaluating the extent of earnings decline in coming months. From the longer range viewpoint, the shares recommend themselves as a sound holding.

there's More Power for Manpower when you use

CLARK EQUIPMENT

For materials handling



You multiply many times the work that men alone can do, and get better satisfied men—by installing Clark materials handling machines. You cut down accidents, double or triple storage capacity and make substantial savings. It's a simple, sound, wholly practical way to compensate for the manpower shortage.

Clark provides the machines you need—fork-lift trucks, powered hand trucks, industrial towing tractors, and fork-truck attachments for many special uses. For full information consult the Clark dealer—see the Yellow Pages of Phone Directory; or write us. Clark Equipment Company, Battle Creek, Mich.

Products of CLARK EQUIPMENT

TRANSMISSIONS — AXLES — AXLE HOUSINGS for Trucks, Buses, Industrial and Farm Tractors — FORK-LIFT TRUCKS — POWERED HAND TRUCKS and INDUSTRIAL TOWING TRACTORS for Materials Handling. RAILWAY CAR TRUCKS for Suburban, Street and Elevated Railway Cars.

Companies Building Future Earning Power by Retained Profits

(*Continued from page* 23)

million since 1945, at the same time that working capital increased from $71 to $123 million. This important development has been reflected in a rise in the price of the stock from an average of 50 in 1945 to the present price of about 125. Dow Chemical, a specially good example of the value of retained earnings actively employed, increased the value of its plant from $67 million to $211 million and its working capital from $40 to $63 million. The stock moved along in value, having sold (adjusted for the 4 to 1 split) at an average of 40 in 1945 and now is selling at about 100.

Goodrich raised net plant value from $48 to $85 million and working capital from $106 to $171 million. The stock sold (adjusted for the 3 to 1 split) at an average of 20 in 1945 and is now about 66. Gulf Oil's net plant value increased from $446 to $704 million and working capital from $83 to $255 million. The stock rose from a pre-split price (2 for 1) of 25 to its present price of about 60.

Earnings per share for these stocks were never at any time in this period expressed in unusually large figures, though rising in successive stages. Hence, the higher valuation of the stocks may be attributed principally to the physical and financial growth of these companies which in turn have produced a steadily increasing earning power. In other words, stocks of this category do not discount yearly earnings as much as they do the *increasing base* of these earnings. Expressed differently, higher prices are paid by investors for stocks with assured future prospects rather than for stocks which may have a temporarily high rate of earnings.

Varying Policies

In recent years, about two-thirds of the increase in net property has been financed through retained earnings, and the balance through borrowing. Policies of corporations vary in this respect, some preferring to finance all of their improvements through their own resources, others while utilizing the greater portion of such reserves, also resort to the issue of new securities. Some have even reduced or cancelled their funded debt, at the same time making large additions to their property.

Electric, for example, paid off $150 million in debt in 1950, which had been originally borrowed for plant expansion. At the same time, it has been able to increase net property account from $123 to $276 million in the past five years without including additions to subsidiaries. Standard Oil of New Jersey financed its expansion differently, having increased its funded debt from $155 million in 1945 to $312 million, without including relatively small additions to the funded debt of several of its subsidiaries. However, net plant value increased from $1,140 to $2,127 million, at the same time that working capital rose from $779 million to $1,047 million. Clearly, the investment of additional funds in plant, even partially through borrowing, has been extremely profitable to the company. Final appreciation by the market of this fact is expressed in the rise of the stock from a pre-split price (adjusted 2 for 1) of 30 in 1946 to the present level of about 70.

As stated, in a period of prosperity and expansion (see inflation), there is a tendency for the market to place a higher valuation on retained earnings and this is one of the important reasons for the market's underlying strength. Until there is ample evidence that industrial activity is facing a de-

cline, it is expected that investors will continue to attach importance to retained earnings. Although the market, in recent months especially, has reflected the influence of this factor principally in the "blue-chip" stocks, it should not be inferred that similar situations may not be found among some of the smaller companies.

The criterion is not size in itself, though the larger companies are naturally in a better position to exploit their resources, but in the efficient utilization of surplus earnings. The test is whether the new outlays are productive. For this a close reading of balance sheets, in conjunction with profit statements, is necessary. Where the addition of new plant and facilities has been followed by an increase in profits, the investor may be reasonably sure that his company has efficiently employed its retained earnings.

However, the investor must not be blinded by too optimistic hopes. He must also be sure that expansion does not ultimately result in over-capacity or at least, if over-capacity should ensue as during a period of declining business volume, that his company may be counted on to remain a strong financial position to take care of the contingencies that may arise.

Among the companies listed in the accompanying table which retained an unusually high proportion of earnings last year are Admiral Corporation, Burlington Mills, Dixie Cup, Goodrich, Gulf Oil, Plymouth Oil, Reynolds Metal, Schenley Industries, Sun Oil and Thompson Products.

Better Times Ahead for the Movie Industry

(*Continued from page* 31)

able market, could better reveal the underlying value in these situations.

Paramount Picture Corporation's net income for 1951 will probably be close to that of 1950 when $2.67 per share was earned. This figure does not include 52 cents per shade of undistributed profits from affiliated companies. Reduction by almost 30% of the outstanding capital stock since 1949 has permitted a larger share of profit on a per share basis than would have been otherwise possible. Second quarter earnings im-

(*Please turn to page* 48)

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"Should You Buy Shares in America?"

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THE READER'S DIGEST

It's the best explanation we've seen of why the ownership of common stocks is important — important, naturally, to any individual worried about protecting his extra money but important in a much more basic sense to America at large . . . to our whole system of living.

No single article, of course, can answer more than a few of your questions about investing. But if you'd like to pursue the subject a little further, if you'd like simple answers to such basic questions as what stocks are, what they cost, what a broker does, we'll be glad to send you our pamphlet "*What Everybody Ought to Know . . . About This Stock and Bond Business.*" Just ask for the pamphlet on stocks— there's no charge of course. Send your request to—

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400,000 Shares

Cone Mills Corporation

Common Stock
(par value $10 a share)

Price $30 a Share

Copies of the Prospectus may be obtained from only such of the undersigned as may legally offer these Shares in compliance with the securities laws of the respective States.

MORGAN STANLEY & CO.

KUHN, LOEB & CO. *MERRILL LYNCH, PIERCE, FENNER & BEANE*

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HARRIMAN RIPLEY & CO. Incorporated *HEMPHILL, NOYES, GRAHAM, PARSONS & CO.*

LEHMAN BROTHERS *REYNOLDS & CO.* *WHITE, WELD & CO.*

September 19, 1951.

The Movie Industry

(*Continued from page* 47)

proved over the first quarter but the poorer showing of the latter period tended to hold down earnings for the half year. Paramount's current business is running at about the same level as last year, but the pick-up in foreign receipts will probably be sufficent to absorb higher taxes and the increased amortization of the eight additional pictures planned for this year.

Another development which recently created a furore in the shares, is the announcement by the company that it had developed a promising technique and apparatus in the field of color television. Probably, this will take an appreciable period before it can be brought to fruition.

Like the other moving picture producers, Paramount's profits over the next few months are conditional on whether its new releases meet with good public response. The outlook is further complicated by the effect on box-office receipts when the big television shows return to the air in autumn. These elements in the situation are necessarily uncertain, the only sure phase being the steady increase from income abroad.

An interesting and potentially important development is the recent acquisition of International Telemeter which owns a coin-operated device that can be connected with any video receiver and which permits transmitting stations to charge patrons for the shows. While no plans have been set in motion to market this device for the utilization of Paramount films, it is a sign that the company intends to secure its share of television business when the time is right for such a development.

With $64 million in working capital, Paramount is in a strong financial position and can continue the current 50-cent quarterly dividend. However, real assurance as to the permanence of the dividend must depend on a more or less rapid pick-up in earnings, since the margin between earnings and dividend is narrow. The stock has recently recovered from a low of 21 to above 30 but further substantial gains depend on a greater rate of increase in profits than seems likely at present.

Loew's Inc. has not yet published its earnings for the fiscal year ended August 31, but based on the first forty weeks of fiscal 1951 during which $1.08 per share was earned, the total for the year will be about $1.50 or approximately the same as last year. For two years now, the company has just about earned its dividend of $1.50 per share and in the years 1948-1949 earned only two-thirds of the dividend. It is obvious that the company will have to improve its earnings in the near future, if the present dividend rate is to be continued. Loew's financial position is still strong but it is worth noting that net working capital has declined from $105 million in 1947 to slightly less than $90 million.

Several new developments are of benefit to the company. The first is the excellent box-office results of such "hits" as "The Great Caruso" and "Show-Boat". In addition, good results are anticipated from the coming release of several potential big money-makers. Foreign rentals are also improving and the outlook for profits from this source is quite satisfactory. In this connection, the recent signing of the Italo-American Film Trade Agreement will permit the company to receive in dollars one-third of its $1 million profits blocked in lire.

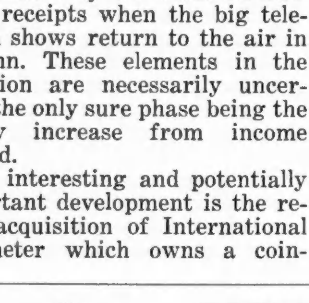
Margin of Improvement Uncertain

Along with the rest of the movie industry, Loew's earnings should improve over the next few months but by how wide a margin is difficult to determine at this stage. While earnings coverage of dividends has been unsatisfactory for some years, the stock itself seems to have discounted this situation quite fully. Loews now at 18 is only a few points above the lowest price since 1947. In 1946 it sold at 41.

Twentieth Century-Fox Film Corporation made a poor showing during the first half of 1951 when only 30 cents a share was earned against $1.59 the same period last year. Box-office receipts, however, have been picking up lately, largely due to the outstanding success of its latest picture "David and Bathsheba" which, at present writing, is the leading movie attraction in the country. A close second is the picture "People Will Talk" which is fourth in national box-office receipts.

Goaded by television competition, Twentieth Century, like the other big producers, has swung back to the older conception that the best profit results come from "big" pictures. Certainly the brightest spot in the industry in recent months has been the undoubted public response to high quality films. At any rate, the company is aggressive in trying to break the general public apathy towards the movies.

Based on the recent upturn in business, Twentieth Century is expected to report about $2.25 per share this year against $3.26



"Call for PHILIP MORRIS"

ONE HUNDREDTH
Common Stock Dividend

Philip Morris & Co. Ltd., Inc.

Common Stock ($5.00 Par) A regular dividend of $0.75 per share has been declared payable October 15, 1951 to holders of record at the close of business on October 1, 1951.

Cumulative Preferred Stock. The regular quarterly dividends of $1.00 per share on the 4% Series and $0.975 per share on the 3.90% Series have been declared payable November 1, 1951 to holders of record at the close of business on October 15, 1951.

L. G. HANSON, *Treasurer*

New York, N. Y. September 19, 1951

in 1950. The $2 dividend so far is not being covered by a wide margin and it will take a definite increase in earnings to safeguard the current rate. On the other hand, the stock at around 20 is close to the lowest price in the past few years. In 1946, it sold as high as 63. Any real clue that a definite upswing in earnings was in sight would be quickly reflected in the price of this stock.

Textiles Out of the Dumps?

(*Continued from page* 29)

As to the outlook for the balance of the year, there is indication that production should improve over the low third quarter rate during the final quarter, though second half shipments will be substantially below last year's high total. The hope is that an increasing proportion of consumer spending will be diverted to soft goods lines, including textiles, and military requirements should also remain at a relatively high rate. Nevertheless, keen competitive conditions are in prospect which is bound to have a bearing on profit margins, and higher taxes are also to be considered.

Operating profits of cotton mills will be well below a year ago in the year's final half not only because of smaller output but because selling prices are well below OPS ceilings. Fortunately, EPT exemptions are generally large, minimizing the tax impact.

In the rayon manufacturing field, a sharp drop in third quarter sales will result from production cutbacks by weavers. Curtailed operations and lower prices will narrow margins of the weaving mills, thus third quarter profits in either case will be at a much lower rate. While some recovery is probable in the final quarter, second half earnings will be well below the high rate in last year's final half.

Production of woolen and worsted woven goods has considerably expanded in the second quarter, aided by greater military business, but since then, civilian business has been slow. Nevertheless, order backlogs have increased with greater military procurement. Improvement in civilian buying is anticipated later in the year and aggregate 1951 earnings should stack up fairly well.

Marketwise, the action of textile shares has been reflecting the uncertainties and adverse elements inherent in the textile situation, with shares of rayon producers providing a notable exception until recently. Woolen shares latterly have firmed somewhat on the large backlog of military orders. At present prices, most groups seem to be adequately discounting indicated prospects though it will require clearer definition of how much improvement may be expected, to make for improved market performance. The simple fact is that the industry as a whole is not yet "out of the dumps". Excessive inventories remain to be worked off and forward commitments by distributors are subnormal. It will take some time to bring about needed adjustments but the picture should be brighter after the turn of the year.

This announcement is neither an offer to sell nor a solicitation of any offer to buy securities. The offering is made only by the Prospectus.

244,500 Shares

Merck & Co., Inc.

$4.00 Convertible Second Preferred Stock

(Cumulative and Without Par Value)

The Company is offering to the holders of its Common Stock the right to subscribe to these shares as set forth in the Prospectus. Subscription Warrants expire at 3 P.M., New York City business time, on October 3, 1951.

Subscription Price to Warrant Holders $104 per Share

Prior to the expiration of the Warrants, the several Underwriters may offer shares of Convertible Second Preferred Stock at the prices and pursuant to the terms and conditions set forth in the Prospectus.

A copy of the Prospectus may be obtained within any State from such of the Underwriters as may regularly distribute the Prospectus within such State.

Goldman, Sachs & Co. **Lehman Brothers**

September 19, 1951.

Spain—New Link Against Communist Aggression

(*Continued from page* 21)

calism—aid ranging from $200 to $400 million is being mentioned—the present method of dealing with Spanish business rather than with the Government is to be preferred. Both Spain and the United States have a lot to gain from encouraging private enterprise, which has been suffering from a confusion of controls. Those Spanish enterprises which have had to deal with foreign countries, have had to face, in addition, a fantastic maze of foreign exchange regulations. As a result, where exports and imports are concerned, blackmarket, under-the-table operations, have been the rule rather than the exception.

During the last few months there have been some signs that the Franco regime might relax some controls over private enterprise and simplify foreign exchange regulations. There has even been some strengthening of the peseta in the free market, and Spanish stocks are being regarded more favorably. Our ambassador to Madrid, Mr. Stanton Griffis, has been working hard trying to convince the regime that better business relations between the two countries would work to the benefit of Spain.

Basically the problem is to bring Spain economically and politically into line with other Eu-

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The Movie Industry

(*Continued from page* 47)

proved over the first quarter but the poorer showing of the latter period tended to hold down earnings for the half year. Paramount's current business is running at about the same level as last year, but the pick-up in foreign receipts will probably be sufficent to absorb higher taxes and the increased amortization of the eight additional pictures planned for this year.

Another development which recently created a furore in the shares, is the announcement by the company that it had developed a promising technique and apparatus in the field of color television. Probably, this will take an appreciable period before it can be brought to fruition.

Like the other moving picture producers, Paramount's profits over the next few months are conditional on whether its new releases meet with good public response. The outlook is further complicated by the effect on box-office receipts when the big television shows return to the air in autumn. These elements in the situation are necessarily uncertain, the only sure phase being the steady increase from income abroad.

An interesting and potentially important development is the recent acquisition of International Telemeter which owns a coin-operated device that can be connected with any video receiver and which permits transmitting stations to charge patrons for the shows. While no plans have been set in motion to market this device for the utilization of Paramount films, it is a sign that the company intends to secure its share of television business when the time is right for such a development.

With $64 million in working capital, Paramount is in a strong financial position and can continue the current 50-cent quarterly dividend. However, real assurance as to the permanence of the dividend must depend on a more or less rapid pick-up in earnings, since the margin between earnings and dividend is narrow. The stock has recently recovered from a low of 21 to above 30 but further substantial gains depend on a greater rate of increase in profits than seems likely at present.

Loew's Inc. has not yet published its earnings for the fiscal year ended August 31, but based on the first forty weeks of fiscal 1951 during which $1.08 per share was earned, the total for the year will be about $1.50 or approximately the same as last year. For two years now, the company has just about earned its dividend of $1.50 per share and in the years 1948-1949 earned only two-thirds of the dividend. It is obvious that the company will have to improve its earnings in the near future, if the present dividend rate is to be continued. Loew's financial position is still strong but it is worth noting that net working capital has declined from $105 million in 1947 to slightly less than $90 million.

Several new developments are of benefit to the company. The first is the excellent box-office results of such "hits" as "The Great Caruso" and "Show-Boat". In addition, good results are anticipated from the coming release of several potential big money-makers. Foreign rentals are also improving and the outlook for profits from this source is quite satisfactory. In this connection, the recent signing of the Italo-American Film Trade Agreement will permit the company to receive in dollars one-third of its $1 million profits blocked in lire.

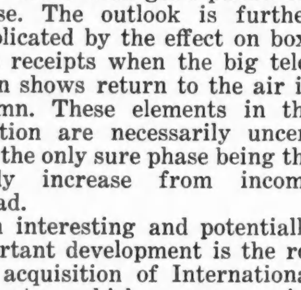
Margin of Improvement Uncertain

Along with the rest of the movie industry, Loew's earnings should improve over the next few months but by how wide a margin is difficult to determine at this stage. While earnings coverage of dividends has been unsatisfactory for some years, the stock itself seems to have discounted this situation quite fully. Loews now at 18 is only a few points above the lowest price since 1947. In 1946 it sold at 41.

Twentieth Century-Fox Film Corporation made a poor showing during the first half of 1951 when only 30 cents a share was earned against $1.59 the same period last year. Box-office receipts, however, have been picking up lately, largely due to the outstanding success of its latest picture "David and Bathsheba" which, at present writing, is the leading movie attraction in the country. A close second is the picture "People Will Talk" which is fourth in national box-office receipts.

Goaded by television competition, Twentieth Century, like the other big producers, has swung back to the older conception that the best profit results come from "big" pictures. Certainly the brightest spot in the industry in recent months has been the undoubted public response to high quality films. At any rate, the company is aggressive in trying to break the general public apathy towards the movies.

Based on the recent upturn in business, Twentieth Century is expected to report about $2.25 per share this year against $3.26



ONE HUNDREDTH
Common Stock Dividend

Philip Morris & Co. Ltd., Inc.

Common Stock ($5.00 Par) A regular dividend of $0.75 per share has been declared payable October 15, 1951 to holders of record at the close of business on October 1, 1951.

Cumulative Preferred Stock. The regular quarterly dividends of $1.00 per share on the 4% Series and $0.975 per share on the 3.90% Series have been declared payable November 1, 1951 to holders of record at the close of business on October 15, 1951.

L. G. HANSON, *Treasurer*
New York, N. Y. September 19, 1951

in 1950. The $2 dividend so far is not being covered by a wide margin and it will take a definite increase in earnings to safeguard the current rate. On the other hand, the stock at around 20 is close to the lowest price in the past few years. In 1946, it sold as high as 63. Any real clue that a definite upswing in earnings was in sight would be quickly reflected in the price of this stock.

Textiles Out of the Dumps?

(*Continued from page* 29)

As to the outlook for the balance of the year, there is indication that production should improve over the low third quarter rate during the final quarter, though second half shipments will be substantially below last year's high total. The hope is that an increasing proportion of consumer spending will be diverted to soft goods lines, including textiles, and military requirements should also remain at a relatively high rate. Nevertheless, keen competitive conditions are in prospect which is bound to have a bearing on profit margins, and higher taxes are also to be considered.

Operating profits of cotton mills will be well below a year ago in the year's final half not only because of smaller output but because selling prices are well below OPS ceilings. Fortunately, EPT exemptions are generally large, minimizing the tax impact.

In the rayon manufacturing field, a sharp drop in third quarter sales will result from production cutbacks by weavers. Curtailed operations and lower prices will narrow margins of the weaving mills, thus third quarter profits in either case will be at a much lower rate. While some recovery is probable in the final quarter, second half earnings will be well below the high rate in last year's final half.

Production of woolen and worsted woven goods has considerably expanded in the second quarter, aided by greater military business, but since then, civilian business has been slow. Nevertheless, order backlogs have increased with greater military procurement. Improvement in civilian buying is anticipated later in the year and aggregate 1951 earnings should stack up fairly well.

Marketwise, the action of textile shares has been reflecting the uncertainties and adverse elements inherent in the textile situation, with shares of rayon producers providing a notable exception until recently. Woolen shares latterly have firmed somewhat on the large backlog of military orders. At present prices, most groups seem to be adequately discounting indicated prospects though it will require clearer definition of how much improvement may be expected, to make for improved market performance. The simple fact is that the industry as a whole is not yet "out of the dumps". Excessive inventories remain to be worked off and forward commitments by distributors are subnormal. It will take some time to bring about needed adjustments but the picture should be brighter after the turn of the year.

This announcement is neither an offer to sell nor a solicitation of any offer to buy securities. The offering is made only by the Prospectus.

244,500 Shares

Merck & Co., Inc.

$4.00 Convertible Second Preferred Stock

(Cumulative and Without Par Value)

The Company is offering to the holders of its Common Stock the right to subscribe to these shares as set forth in the Prospectus. Subscription Warrants expire at 3 P.M., New York City business time, on October 3, 1951.

Subscription Price to Warrant Holders $104 per Share

Prior to the expiration of the Warrants, the several Underwriters may offer shares of Convertible Second Preferred Stock at the prices and pursuant to the terms and conditions set forth in the Prospectus.

A copy of the Prospectus may be obtained within any State from such of the Underwriters as may regularly distribute the Prospectus within such State.

Goldman, Sachs & Co. **Lehman Brothers**

September 19, 1951.

Spain—New Link Against Communist Aggression

(*Continued from page* 21)

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NATIONAL DISTILLERS

PRODUCTS CORPORATION

DIVIDEND NO

The Board of Directors has declared a quarterly dividend of 50c per share on the outstanding Common Stock, payable on November 1, 1951, to stockholders of record on October 11, 1951. The transfer books will not close.

THOS. A. CLARK

Sept. 27, 1951. Treasurer

Spain—New Link Against Communist Aggression

(*Continued from page* 49)

ropean countries. Unfortunately, Spaniards have been their own worst enemies. As the distinguished French geo-politician Jean Gottman wrote recently:

"The Spanish people have been torn between the proud, uncompromising theoretician Don Quixote, who tilted with windmills, and the more modest and more realistic Sancho Panza. But Don Quichote was the master, and he kept riding the lean Rosinante. The condition of this legendary steed may well have been a hint as to the way of life of the bulk of the Spanish nation."

How Much Fall Business Pick-Up?

(*Continued from page* 10)

over elements tending to lower business activity. In the longer run, there is no question that this will be the case. There is some doubt whether it will come about during the fourth quarter.

As the latest business survey of the National Association of Purchasing Agents seees it, there has beeen a slight improvement in general business, the first step-up since April, but there is still a wide gap betwen declining orders and production. Considering normal seasonal trends, the lift off the bottom is not indicative of a boom in general business during the balance of the year. Business is expected to be good but much depends upon further acceleration of defense production.

Answers to Inquiries

(*Continued from page* 41)

Net earnings reflected the steep rise in federal and foreign taxes on income. After providing $3,-003,659 for income taxes ($4.90 per share), the net earnings for the first six months of 1951 totalled $1,775,880, equal to $2.90 per share (on 613,186 outstanding shares). This compares with a net income for the comparable 1950 period of $985,996, equal to $1.93 per share (on 510,466 outstanding shares), after provision for income taxes of $749,105 ($1.47 per share). The number of shares were increased in June 1951 by the successful offering of additional stock to shareholders.

The company booked several substantial orders from the U. S. Government in both its hardware and material handling divisions during the second quarter.

Total incoming orders for the June quarter were approximately $35 million. The backlog of orders on hand totalled approximately $42 million, at June 30, $32 million more than the amount on hand at the same time in 1950. The substantial increase in the rate of production during 1951 was accompanied with only a moderate increase in inventories. Dividends including extras totalled $1.50 a share in 1950 and $2 has been declared up to October 1 of this year.

The Wisest Investment Policy Now

(*Continued from page* 7)

senting serious economic problems. They will surely cease to be psychological market stimulants many months ahead of any visible tapering off. Bear in mind that the market has been discounting the bright side of the picture, regardless of temporary interruptions, for about 27 months now, or since mid-1949. The essential point is that the prospect of a future defense program is far more bullish psychologically at a low market level than it can possibly be after the program gets rolling, as is now the case, with the broad level of industrial stock prices substantially up from the 1949 low.

It is agreed that "the cream" has been largely, if not fully, skimmed off of first-choice stocks. So seekers of capital gain have to turn to medium-grade and speculative stocks, which may or may not live up to expectations. Thus their risk is doubly increased. On the other hand, the potentiality for gain in average stock prices from the present level cannot remotely compare with the percentage rise already seen, and might be comparatively small. On the other hand, they must "go after" that potentiality in the very types of stocks in which long-term investment is not justified and which are normally subject to sharpest declines in either a cyclical downtrend or an intermediate correction of any proportions.

On the reasoning cited, we adhere to our conservative, selective policy. It emphasizes individual stock values and the maintenance of adequate buying power in reserve, both against contingencies and for future buying opportunities.

—Monday, October 1.

As I See It!

(*Continued from page* 5)

There will undoubtedly be shifts in emphasis and method, but there can be no magic cure for Britain's post-war impoverishment and the difficulties associated with the present era of international tension. Blood, sweat and tears will still be the watchword, and because of that, it may be that the Labor Party, already threatened by a serious schism, may not be too concerned about losing elections at this time. Attlee may figure that rather than continue a program distasteful even to his own followers with his slender majority, it may be more politic to take a chance on losing office for a period and meanwhile unite his party in opposition to the conservatices. The impression is that by calling for elections now, the Labor Party is trying to duck a crisis, both economic and internal-political.

IN OUR NEXT ISSUE:

IS THE GOVERNMENT WRONG ABOUT INFLATION?

Watch for This Revealing Article

REVIEW YOUR INVESTMENTS NOW...

THE retroactive feature of new and higher corporate income taxes will lower substantially 1951 per share earnings already announced. In addition, these higher tax levies will combine with rising wages and material costs to reduce earnings per share over the balance of this year and in the future.

Depending upon their vulnerability to increased tax levies every listed stocks, including each issue in your portfolio, will be affected to a greater or lesser extent.

The ingenuity and foresight of management to offset mounting tax loads and other costs by grasping profitable opportunities for new defense and civilian business must also be considered.

Certainly, it will require expert knowledge and experience to measure the effects of the upheaval in the net earning power of the various companies and their ability to pay their regular dividends and to disburse special or year-end extra payments.

STRATEGIC AND IMPORTANT POINT TO REVISE YOUR INVESTMENT HOLDINGS

The present—NOW—represents a particularly strategic time to recheck every individual security you own, as well as the investment policy YOU are following, in relation to cash reserves, income productivity, inflationary versus deflationary factors and other influential forces.

Such reappraisal must be searching and factual, and must avoid personal emotions and subjective considerations.

It is a difficult task for any individual investor. Rather it is a job for an organization of well trained, seasoned experts in the various phases of investment analysis.

MANAGING YOUR SECURITIES

Just as any business venture rises or falls by reason of management—so the healthy expansion—or the shrinkage—in your capital and income are governed by the competence and nature of the management of your investment account.

Capable management must construct a balanced portfolio, soundly diversified as to type of security, nature of business, geographical location and political influences.

It must plan to produce an income return to meet your individual needs and to provide a degree of safety to fit your personal circumstances.

Proper supervision of securities should anticipate dangers ahead and take steps to protect principal against loss. It should see new opportunities developing and set up a program to participate fully in income and profit benefits to be derived.

CONTINUOUS PERSONAL MANAGEMENT

Investment Management Service takes the initiative in advising you when any change should be made in your personal investment holdings You would be relieved of worry, effort and research and would never be left in doubt as to your market position. It is this alert, profitable counsel which has resulted in renewals from our clients year after year.

An Analysis Of Your Investment Portfolio

SPECIAL INVITATION

—without obligation, we offer to send you a confidential, preliminary review of your portfolio if it exceeds $20,000 in value—commenting frankly on its possibilities for capital growth, its income factor and its diversification. Merely send us your list of holdings and objectives in as complete detail as you care to give. All information will be held strictly confidential.

INVESTMENT MANAGEMENT SERVICE

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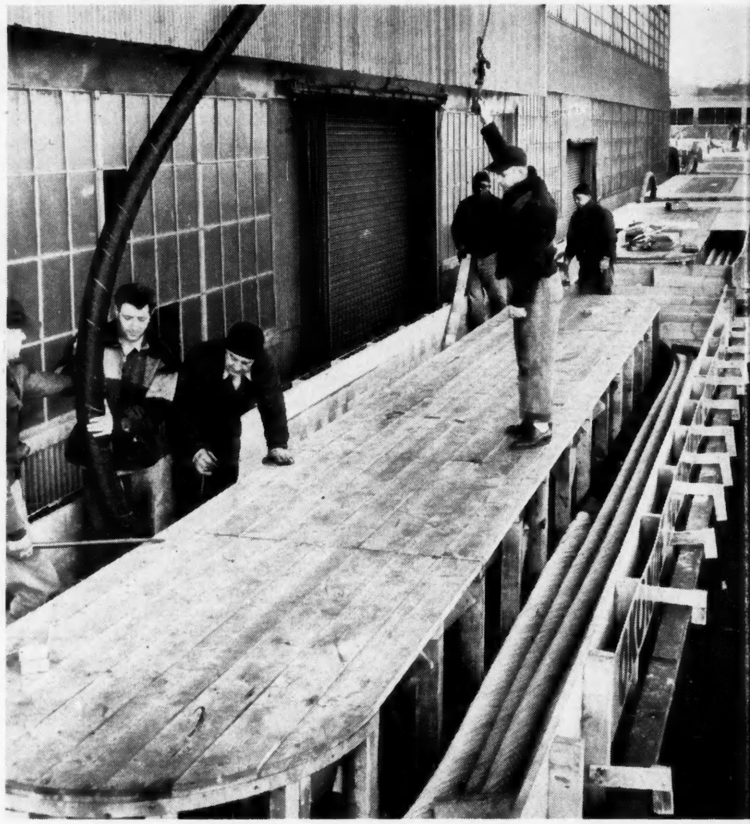
9 CARLOADS OF Dependability

in this world's record submarine cable



Filling nine railway cars and weighing nearly ¾-million pounds, this cable is the largest high voltage submarine cable ever manufactured. Shipped last spring in a single length 7½-miles long, this 25,000-volt monster is now carrying power to the San Juan Islands in Puget Sound. The circuit has an electrical capacity equivalent to 27,000 horsepower.

It is quite logical that Okonite should be selected to make the world's largest submarine power cable. Okonite manufacturing equipment is the largest and most versatile in the industry. But more important, Okonite high voltage submarine cables have established outstanding records, not only in the number and scope of installations, but also in length of service.

Making submarine cables is only one of the more dramatic phases of Okonite's operations, which include all types of insulated cables from tiny communication wires as small as a pencil lead to power transmission cables capable of carrying heavy power loads at pressures up to 230,000 volts. Yet, whatever its end use, any Okonite cable is custom-designed for long, trouble-free service. The Okonite Company, Passaic, N. J.

THE BEST CABLE IS YOUR BEST POLICY

OKONITE PASSAIC, N.J.

OKONITE SINCE 187

insulated wires and cables

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